EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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PHILIPPINES

Marcos ghost haunts US power contractors

Page 4

World News

Bonn worried E Europe is complicating EC relations

The Bonn Government is becoming increasingly worried that rapid changes in Eastern Europe are complicating its policies towards the EC. Meanwhile East German party and government leaders in Leipzig and Dresden indicated they were ready to discuss political reforms with the opposition in the wake of a peaceful demonstration in Leipzig. Page 22

UK to change fish law

UK Government was ordered by European judges to suspend part of a key law aimed at protecting Britain's hard-pressed fishing fleet from Spanish "poachers." Page 22

US Mid-East peace move

US Secretary of State James Baker suggested to the Israeli and Egyptian foreign ministers that they meet him in Washington in an attempt to break the stalemate over proposed Israeli-Palestinian peace talks. Page 22

Seoul business attacked

South Korea's large conglomerates came under attack in Parliament for investing in property and securities instead of upgrading capacity and moving to higher-technology manufacturing. Page 4

Row over glass plant

An on-off plan by an Italian state-owned company to build a float glass plant in the northern Spanish port city of El Ferrol is threatening to sour relations between Rome and Madrid. Page 8

UN cuts support

The UN cut its food rations to the largest Cambodian refugee camp in Thailand because some of its aid has been diverted to guerrillas fighting inside Cambodia. Page 6

Setback for pilots

Australian Federation of Air-line Pilots suffered another setback in its attempt to force the country's domestic airlines to negotiate settlement of its pay dispute. Page 4

Belgians riot

Some 2,000 civic employees ran amok in the centre of Liège, ransacking the office of a political party and setting fire to a bank as the Belgian city ran out of credit and failed to pay their salaries. Page 2

Sudanese find support

Southern African leaders have given support to peace proposals by the rebel Sudan People's Liberation Movement, diplomats say. Page 6

High definition TV

The Bush administration is now certain to reject a policy of specific assistance for high definition TV and instead to adopt a broader-based programme of removing barriers to the development of new technologies. Page 8

Greece election date

President of Greece said elections would be held on November 5 after failing in his bid to form a fresh coalition government. Page 22

Moi frees Kenyans

President Daniel arap Moi, marking 11 years in power, freed almost a quarter of Kenya's common law prisoners to ease overcrowding in jails.

Syrians end ceasefire

Syrian-backed Moslems pulled out of an Arab-led ceasefire committee in Lebanon after a sniper's bullet killed a Moslem army officer in Beirut.

French evict strikers

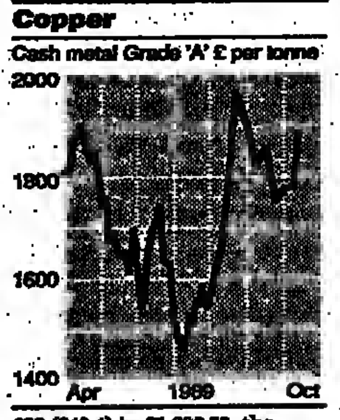
Police peacefully evicted about 80 striking customs officers from the regional customs director's office at Charles de Gaulle Airport where they had staged a 24-hour stoppage.

Business Summary

McCaw lifts offer to buy cellular operator LIN

McCAW Cellular Communications, Seattle-based US telephone group partly owned by British Telecom, modified its $6bn offer for LIN Broadcasting, owner of some of America's most attractive cellular telephone franchises. McCaw, whose previous bid of $110 a share was rejected in July, raised its offer to $125 but it was unclear whether the new proposal will be seen as an improvement. Page 23

COPPER: prices on the London Metal Exchange for immediate delivery climbed by another



£28 ($43.4) to £1,896.50, the highest level for a month. Commodities, Page 34

MATRA, French defence and electronics group, will soon take first steps towards spinning off its space systems business, a prelude to a possible link-up with GEC and Daimler-Benz. Page 23

BOEING and McDonnell-Douglas won combined orders for 26 aircraft worth about $3.6bn from Taiwan's Evergreen Airways. Page 8

ALIVAR and Barilla: negotiations between the two companies on a new public-private joint venture in the Italian food industry were given a preliminary blessing by Carlo Fracanzani, Minister for State Shareholdings. Page 24

OUTOKUMPU, state-owned Finnish base metals group, reported turnover for the year to August of FM7.69bn ($1.79bn), up 32 per cent on the previous period. Page 24

NONOC Nickel and Mining: Alan Bond, Australian businessman, wants to bid again for the mothballed Philippine nickel mine, whose sale to a local consortium is in doubt. Page 27

PERSTORP, Swedish special chemicals and plastics group, reported a 13 per cent rise in profits to SKr685m ($107m) for the year to August. Page 24

ASSURANCES Générales de France, second largest state-owned insurance company, unveiled a 15.3 per cent rise in turnover and a 10.5 per cent rise in net profits for the first six months of 1989. Page 26

DATA GENERAL, US mini-computer manufacturer, announced a major consolidation plan involving the sale of two factories, the closure of another and the loss of thousands of jobs. Page 26

MANNESMANN, West German engineering group which recently announced a strategic link-up with Britain's TI, is to raise DM580m ($305m) through a rights issue to build acquisition funds. Page 24

BANQUE Nationale de Paris, largest French state-owned bank, is to boost its presence in the US banking market with the purchase of Central Bank, a small Californian bank, from Central Banking System for $54m. Page 24

DFC New Zealand; the New Zealand government is refusing to bail out the failed merchant bank in spite of political pressure and accusations from overseas investors that they were misled over its financial standing. Page 27

Britain rules out early move on full EMS entry

By **Philip Stephens**, Political Editor, in Blackpool

THE BRITISH Government yesterday dismissed any early move to take sterling into the European Monetary System as marked differences surfaced within the senior ranks of the Conservative Party over the Chancellor of the Exchequer's handling of the economy.

With the pound still facing intense pressure on foreign exchange markets, senior ministers at the Conservative Party's annual conference, in Blackpool, discounted the possibility that Mr Nigel Lawson would attempt to avoid another rise in interest rates by seeking full membership of the EMS.

Mr Lawson faced an impassioned call, however, from Mr Michael Heseltine, the former Defence Minister and a leading contender for a future Tory leadership, to re-establish the credibility of his anti-inflation strategy by taking sterling into the currency system.

In a speech which included a sharp and only thinly veiled attack on the Treasury's relaxed attitude towards Britain's trade deficit, Mr Heseltine said that entry into the exchange rate system would provide a "clear demonstration that we are determined to pnt our economy right."

His often caustic remarks about the trade deficit underlined the deep unease felt at this week's conference about the impact of rising interest rates and a falling pound on the Government's electoral prospects.

The next British election is due before 1992.

The remarks were accompanied by contradictory calls from several Tory members of Parliament for Mr Lawson to ignore any further depreciation in sterling's value and not seek to halt it by pushing borrowing costs even higher.

Mr Heseltine's comments overshadowed a concerted attempt by other senior ministers to defend the Government's record on policies ranging from alectricity privatisation to the health service and trades unions reform.

Senior ministers, however, argued that a quick decision to take sterling into the EMS would not provide a panacea for the Government's present problems, and that there was no guarantee that it would not destabilise an already strained system.

Britain's inflation rate is still above thoss of its European competitors and the D-Mark is seen by ministers as overvalued against other continental European currencies.

They acknowledged, however, that Mr Nigel Lawson will face intense unrest if he is forced to raise interest rates again.

Ministers also agreed that the present difficulties have increased the problems surrounding this year's internal Government negotiations on public spending.

Mr Kenneth Clarke, the Health Secretary, made a public pleas yesterday for more funds for the health service, but the Treasury was still resisting bids totalling billions of pounds from budget-holding ministers.

The Departments of Health, Education, the Environment and the Home Office were said to be among departments which had still not settled with the Treasury, raising expectations that Mrs Thatcher will have to convene the so-called Star Chamber of senior ministers to adjudicate.

In a speech seen at as setting down his own marker for the future leadership, Mr Kenneth Baker, in his inaugural conference as party chairman, lifted the morale of delegates with a strident attack on the opposition Labour Party's recent policy review and the repeated charge that Mr Neil Kinnock, the Labour leader, was unfit to govern.

Fowler signals delay in strike curbs; Heseltine urges early EMS membership, Page 12

Sterling continues to fall on doubts over UK policy

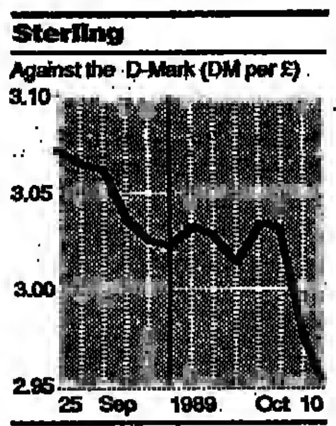
By **Patrick Harverson** in London and **Janet Bush** in New York

THE pound fell sharply on financial markets for the second day running yesterday, at one stage reaching its lowest level against the West German D-Mark and the US dollar for two years.

Domestic and overseas investors sold sterling in the expectation that Mr Nigel Lawson, the UK Chancellor, would not raise interest rates again in the short term to protect the currency.

Pressure of selling from New York when the markets reopened after Monday's holiday pushed the pound below the important DM2.95 barrier, to its lowest against the West German currency since August 28, 1987, before recovering to DM 2.9635 in late New York trading.

Doubts remained over the determination of the UK Government's exchange rate policy. In particular, the markets are concerned about reports of a renewed rift between the Mrs Margaret Thatcher, the Prime Minister, and the Chancellor.



Financial markets were unimpressed by Treasury denials of a rift, and by Monday night's display of nnity between Mrs Thatcher and Mr Lawson at the annual Conservative Party Conference in Blackpool, north England.

Analysts said the lack of a coherent government policy on exchange rates would continue to undermine the confidence of overseas investors in the UK currency.

Analysts said the failure of last week's one point rise in interest rates to hold sterling above DM3.00 had persuaded the authorities to allow the pound find its own level.

The pound recovered some ground late in the afternoon when the dollar firmed against the D-Mark. The dollar was boosted when foreign exchange dealers interpreted statements by Mr Alan Greenspan, chairman of the US Federal Reserve, that he was not bending to pressure from the Administration to ease monetary policy.

Mr Greenspan told US and Soviet officials in Moscow that

Continued on Page 22

Background, Fall in stocks, Page 13; Editorial comment, Page 20; Markets, Page 35; Currencies, Page 42

South Africa to release Sisulu

By **Patti Waldmeir** in Johannesburg

THE South African Government is to release eight of its most prominent political prisoners, including Mr Walter Sisuln, the black nationalist leader, and four others jailed for life 25 years ago.

The release of Mr Sisuln, 77, and others jailed in 1964 in the so-called Rivonia treason trial, named after the suburb near Johannesburg where the defendants were arrested — was announced by Mr F W de Klerk, the country's President.

The move is seen as preparing the way for the eventual release of Mr Nelson Mandela, the imprisoned leader of the African National Congress (ANC) who was also convicted at the Rivonia trial – the biggest political show trial in South African history – of planning acts of political sabotage and revolution. Mr Mandela is the only Rivonia prisoner remaining in jail.

The release, which is the most significant political move by Mr de Klerk since he took office just over three weeks ago, was evidently aimed at persuading the international community that Pretoria is seriously committed to political reform.

While the release of Mr Sisulu had been widely expected, the inclusion of other Rivonia trialists was a surprise.

Timed to coincide with the Commonwealth heads of government meeting due to take place in Kuala Lumpur next week, the release of Mr Sisuln should strengthen the hand of Mrs Margaret Thatcher, the Prime Minister, who is expected to argue at the meeting against further Commonwealth sanctions against South Africa.

The British Government has long campaigned for the release of Mr Sisuln and Mr Oscar Mpetha, the ailing 80-year-old who is honarary president of the banned United Democratic Front (UDF) a leading anti-apartheid organisation. Mr Mpetha's release was also announced last night.

In London last night, Mrs Thatcher said she very much welcomed the decision to release Mr Sisulu: "It is a major step in the right direction," she said "and I naturally hope that it will lead to the release of Mr Mandela and to negotiations on a new constitution for South Africa."

Mr de Klerk said the releases would take place as soon as "necessary formalities" had been completed. These could take some time, bnt the releases were "unconditional."

Mr Alan Greenspan: brought no panacea for the Soviet economy

Master of discretion amid Soviet crisis

By **Quentin Peel** in Moscow

MR Alan Greenspan, chairman of the US Federal Reserve, ended two days of talks yesterday with top Soviet officials denying any "sense of crisis."

As he spoke the Soviet parliament was debating the imposition of a total price freeze to counter the threat of soaring inflation.

In a masterful display of the absolute discretion of the capitalist world's top central banker, he declared: "They are aware there are technical difficulties."

He refused to be drawn on the hopes and fears of his Soviet counterparts, at the end of a visit to meet the top bankers and planners of the ailing Soviet economy.

But he confessed that the openness of the top officials he met to consider ideas from the capitalist world had taken him by surprise.

Mr Greenspan's trip came in the middle of furious debates in the Soviet parliament this week, first to discuss and approve a ban on strikes in key industries to head off rising industrial unrest, and then on the possibility of an outright price freeze.

His host, Mr Leonid Abalkin, the deputy prime minister in charge of economic reform, was forced in the Supreme Soviet to produce a passionate defence of the reform process, and the need to liberalise prices, to dissuade the deputies from reimposing rigid price controls in every sector.

Mr Greenspan, however, insisted that he brought no panacea for the Soviet economy, only a few lessons drawn from the operations of the market economies of the West which might just be relevant to perestroika.

At a banking lecture last night, delivered at the US Embassy reception room, he just hinted at a couple of classic lessons from the textbook of the Fed.

"Holding interest rates at unsustainably low levels has been shown to lead to accelerating inflation," he told an audience of bankers and planners who charge and pay nothing more than a conple of token percentage points on their lending.

As for currency controls, "attempts to maintain unrealistic exchange rates may destabilise capital flows and ultimately have to be abandoned."

Mr Greenspan nevertheless paid tribute to the upheaval in the Soviet system.

"There are few examples in history to rival the scope of the restructuring now being undertaken in the Soviet economy," he declared, to appreciative, if nervous, murmurs.

His talks with officials concentrated not on the external convertibility of the rouble, he said, but rather on its "internal convertibility" - the need to give the currency some value to Soviet consumers, so they can buy something with it in the shops.

They also focused on the one

Continued on Page 22

British computer hackers may face prison

By **Robert Rice**, Legal Correspondent, in London

THE British Government intends to introduce legislation to combat compnter hacking following recommendations from the Law Commission.

The proposals from the Government's law reform body will place the UK alongside a handful of other indnstrialised nations in the fight against computer crime. Laws criminalising hacking and other forms of computer misuse have already been adopted in some states of America, in Canada, France and some states of Australia.

In a report following a year-long study of the effects of hacking, estimated to cost commerce and industry millions of pounds each year, the commission calls for the creation of three offences to tackle the growing problem of unauthorised antry into computer systems.

Publication of the report had been brought forward from the end of the year at the request of the Government.

Welcoming its recommendations yesterday, Mr Nicholas Ridley, Secretary of State for Trade and Industry, said he was "inclined to accept the commission's recommendations." The Government intended to bring forward legislation as soon as there was a suitable opportunity, he said.

The commission's report says the current isw does not deal adequately either with the costs, disruption and uncertainty caused to the owners and users of computers systems by hacking, or with the loss and damage caused by unauthorised alterations to computer-held data or programs, whether by simple alteration or by the use of "viruses," "worms" or infected computer disks.

It recommends a "basic" offence of unauthorised entry into a computer system. It will apply to anyone who, knowing he does not have authority to do so, seeks to enter a computer, whether merely for fun, or in order to try and interfere with the computer's working. This would be a summary offence triable in the magistrates', or lower, court and punishable by a maximum three months imprisonment.

A more serious offence of unauthorised entry into a compnter system with intent to commit, or to assist, the commission of a serious crime.

Continued on Page 22

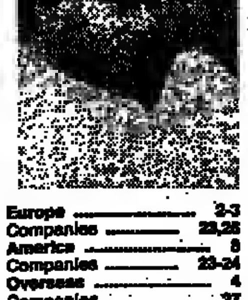
MARKETS

STERLING	DOLLAR	STOCK INDICES
New York closing: $1.5525	New York closing: DM1.9075	FT-SE 100: 2,218.8 (−28.2)
London: $1.558 (1.579)	FFr6.4635	FT Ordinary: 1,796.7 (−26.2)
DM2.955 (2.975)	SFr1.6675	FT-A All Share: 1,120.83 (−1.4%)
FFr10.015 (10.1025)	Y144.45	FT-A long gilt yield index high coupon: 9.83 (9.75)
SFr2.5825 (2.5975)	London: DM1.896 (1.8845)	New York closing: DJ Ind. Av. 2785.33 (-6.06)
Y224.25 (225.25)	FFr6.4275 (6.3975)	Tokyo: Closed
£ index 89.0 (89.8)	SFr1.657 (1.6455)	LONDON MONEY
GOLD	Y143.95 (142.65)	3-month interbank: closing $15\frac{1}{16}$% ($14\frac{31}{32}$)
New York: Comex $365.1 (367.4)	$ index 70.5 (70.4)	
London: $362	US LUNCHTIME RATES	
N SEA OIL (Argus) Brent 15-day Nov $18.40 (+$0.275)	Fed Funds $8\frac{31}{32}$%	
Chief price changes yesterday: Page 23	3-mo Treasury Bills: yield: 7.82%	
	Long Bond: $101\frac{5}{8}$ yield: 7.98%	

MARKET REPORTS: CURRENCIES, Page 42; BONDS, Pages 28,29
COMMODITIES, Page 34; EQUITIES, Page 35 (London), 46 (World)

CONTENTS

India ready to enter a "golden age" of growth



The Government of Prime Minister Rajiv Gandhi (left) is nervous about making too much of the turnaround in the country's economic fortunes because the impact has been uneven.

Page 20

Big rise in EC green spending predicted

By John Hunt, Environment Correspondent

A MASSIVE rise of 280 per cent in spending on environmental improvements in EC countries over a four year period is predicted by UBS Phillips and Drew in a survey on investing in the "green" sectors of West European industry.

Environmental spending for the 12 member states was $46bn in 1987 or 0.9 per cent of aggregate EC gross national product. Tha survey predicts this figure will rise to between $125bn and $175bn by 1991, representing between 2 and 3 per cent of the EC's gross national product.

"Our contention is that no sector of industry is left untouched by the green issue," says the report.

It predicts that all members states will be required to produce a tough action plan on the environment similar to the national environment plan proposed by the Netherlands.

The report analyses 32 sectors of industry and examines the costs and opportunities of environmentalism. British companies whicb it believes will benefit significantly inclnde Sbell, British Gas, Johnson Matthey, BOC, and Simon Engineering.

It says the use of oil as a fuel is likely to decline in proportion to the overall energy market and that taxes on oil will increase in the 1990s.

But it foresees a significant jump in demand for gas, which causes less greenhouse emissions.

The chemical industry, subject to increasing emission regulation and controls, is likely to be substantially affected. Heavy industry is likely to incur additional emission control costs but engineering indnstry involved in water treatment, desulpburisation treatment of fossil fuel emissions or in railways, will see volume of business grow significantly.

UBS Phillips and Drew is the investment bank services arm of the Union Bank of Switzerland.

Investing in a Green Europe, UBS Phillips and Drew, 100, Liverpool St, London EC2M 2RH.

EC merger policy talks fail

By Lucy Kellaway in Luxmebourg

EUROPEAN Indnstry ministers yesterday failed to agree upon a compromise package that would set the basis for a Community-wide merger policy.

The French presidency had boped that the issue could have been finally settled at yesterday's Luxembourg council meeting, but two separate proposals tabled by the British and the Dutch failed to bridge the gap between members.

A fundamental difference remains between countries such as the UK, France and Germany that would like Community involvement to be limited to larger mergers, and others which would like a greater involvement by Brussels.

Both proposals involved medium sized companies with worldwide turnovers between Ecu 2bn and Ecu 5bn, The British suggested a system where countries would have the option to cede power to the Commission on all mergers in that range. The Dutch proposal would give countries power to choose on a case-by-case basis whether to allow the Commission to investigate on their behalf. It would also allow Brussels to intervene at its own wish – a proposal strongly opposed by the British.

In discussions yesterday some countries felt the Dutch plan was too vague while the British plan was not sufficiently flexible.

Other outstanding questions included the appropriate criteria for Commission involvement and whether the four-year review to the threshold should be subjected to qualified majority voting.

The lack of much progress on any of the main issues was a consequence of the strong links between the proposals which are likely to find eventual agreement as part of a package rather than selective measures.

Ministers will discuss tha merger policy again at next month's council meeting.

Homesickness hits refugees

HOMESICKNESS has already caused more than 50 East German refugees to head back to their Communist homeland, just weeks after their arrival, an official said yesterday, AP reprits from Frankfurt.

Since Hungary opened its Western border to the East Germans on September 11, tens of thousands of refugees have reached West Germany, often crying tears of happiness on their arrival.

That has sparked clothing drives for the newcomers, job offers and massive government efforts to ensure they have adequate housing.

However, officials have also cautioned that many of the refugees will face personal problems as they try to becoma integrated into an unfamiliar society, cut off from their familiar surroundings.

Yesterday, Bavarian border police spokesman Mr Wolfgang Schlee said that 54 refugees who had arrived since the Hungarian border opening had already returned to East Germany, and that he expected there would be some more despite the recent East German crackdown on protestors in five cities.

"Homesickness is the key," Mr Schlee said in a telephone interview. "Many of them miss their friends. It's for personal reasons."

He continued: "In some cases it's a question of wives, children and parents left behind, alone or in need of care. That has touched their consciences."

Mr Schlee said he thought it "completely normal" that some of the refugees were going back considering the numbers who arrived, often carrying just suitcases.

"They took only the most necessary things with them," the spokesman said. "Most of what they owned was left behind."

He said those going back included single people as well as families with children.

Since the refugee exodus started, there has been speculation over what would happen if any of them went back.

Hungary's Socialists quit the frying pan for the fire

John LLoyd and Judy Dempsey in Budapest survey the drastically altered political landscape

DELEGATES TO the last congress of the Hungarlan Socialist Workers Party – which on Sunday became the first congress of the Hungarian Socialist Party – went their separate ways, gummy-eyed, at around 1.30 yesterday morning in the drizzle of an autumn night.

On the last day of the congress, whose proceedings had lasted 17 hours, they elected Mr Rezso Nyers, a moderate reformer, as their president and a largely reforming presidium to lead their party into the democratic era.

They had agreed that the Forints 10bn (£104m) worth of property that remains in the party's hands should largely be banded back to tha state, except for that needed to run the party itself; that the workers' militia, once a formidable armed party guard, be put under government control and used for civil emergencies; and that party branches in work places should remain, since, as Mr Nyers *later* explained a little disingennously, it would be undemocratic to ban them when such organisations were legal in the Western constitutions to which the Socialist party aspires.

Although the new party's composition and programme are something of a fudge between radical reformers and "moderates," the conclusion must be that the HFWP *has* succeeded in committing suicide as a party which monopolises state power.

Mr Geza Jeszenszky, a member of the executive of the Hungarian Democratic Forum (HDF), the largest and most popular of the opposition parties, admitted yesterday that the change was "irreversible" and went so far as to say that "the programma they have adopted seems rather more liberal, even, than social democratic: we welcome that".

Others in opposition parties are less impressed. Bnt no major figure challenges the view that Hungary now has a relatively open arena in which democratic politics can be practised.

With their exit from the luxurious Novotel conference hall, the newly-baptised Socialists thus confront a reality which is much less politically comfortable than that which they have enjoyed for four decades. But if it is not comfortable for them, it is little more so for anyone else. Hungary, over the next six months, joins Poland in the crucible of democratic transformation.

First test is the presidential election, set for November 25 (though that date has yet to be ratified by Parliament). Until quite recently, the only real contender had been Mr Imre Pozsgay, the Socialists' leading reformer. Popular, clever, with much of the democratic change due to his energy, he seemed at one stage to be unbeatable.

That is no longer certain. Under pressure yesterday, Mr Jeszenszky and Mr Gabor Rozsik, the Lutheran clergyman who is one of the four Democratic Forum MPs to be elected in by-elections, confirmed there would be no agreement to allow Mr Poszgay a free run at the presidency, as had once seemed possible. They *would* put up a candidate against him, to be chosen at their conference in a little over a week.

Mr Nyers and a colleague get their heads together

The Free Democrats, the liberal group whose popularity is growing but who still trail the HDF considerably, could have two possible candidates in Mr Laszlo Rajk and Mr Gaspar Miklos Tamas. But for all their brilliance and articulacy, they are unlikely to get the backing of a party which is presently carrying all before it in the countryside. It may be that, if no joint opposition candidate can be agreed, the opposition vote will be split. But if they *can* agree, Mr Pozsgay has a fight on his hands.

The parliamentary elections, set for March, are presently expected to see the HDF as the biggest party: perhaps even to take an absolute *majority* by itself or with the help of putative allies on the centre right, such as the Christian Democrats and the Smallholders.

Hungarian politics seem now to be returning to a tripartite pattern, with a broadly Christian right, a non-Christian liberalism, and on the left, a Socialist, and possibly still a Communist, party. For the moment, the wind is with the right.

It is thus perfectly possible that, quite soon, Hungary may have a President and a Parliament of the right; that neither of these institutions will preserve any personal or political continuity with the Communists; and that the Socialists will be reduced to a small and irrelevant force.

The very possibility makes the men of the Democratic Forum a little dizzy. The party was only formed last year. The leading members are writers, academics and other cultural figures. They are strong in the countryside, and they have, in Mr Joszef Antall, a credible future Prime Minister, but their economic programme is still weak and their nerve before the Hungarian economic crisis is yet to be tested.

Further, as Mr Jeszenszky stressed yesterday, they have no immediata plans to leave the Warsaw Pact and are conscious that a President and a Government seen to mark a too decisive break with the men that Moscow knows could be in danger.

The Communists-turned-Socialists, then, may have an afterlife as the guarantors of the "geopolitical realities" – and as the mediators between the new Government and a civil service which is a *nomenclatura* and which, though it may well see that its interests lie in serving new masters, still has to yield the keys to bureaucratic knowledge.

And the more able men among tha Socialist reformers, Mr Pozsgay, Mr Miklos Nemeth, the Prime Minister, and Mr Gyula Horn, the Foreign Secretary, may thus have a political afterlife as ministers co-opted into a centre-right Government which is anxious to reassure both the Soviet Union and the bureaucracy.

These are the calculations necessarily being made in a small, landlocked, Central European state with a history of domination. The parties", and thus the country's, freedom is relative. But at least it *is* relative, and no longer wholly absent.

Gorbachev wins UK praise on rights

By Robert Mauthner, Diplomatic Correspondent

A MAJOR change for the better in the Soviet Union's buman rights programme has taken place since Mr Mikhail Gorbachev, the Soviet President, came to power in 1985, Mr William Waldegrave, a junior British Foreign Office Minister, said yesterday.

But emigration from tha Soviet Union continued to increase. So far this year, some 33,000 people, mostly Jews and refuseniks, had left, nearly double the figure for 1988. Of these, 6,776 Jews had left in August alone, the highest monthly total ever, Mr Waldegrave told an Amnesty International meeting in Blackpool.

The Soviet authorities had not fulfilled the pledge made during the Conference on Security and Co-operation in Europe (CSCE) in Vienna early this year to resolve within six months all cases outstanding at the end of the conference.

Much room for improvement still existed, especially in religious freedom. The Ukrainian Catholic Church was still proscribed and Soviet Jews still did not have enough freedom for their way of life.

Mr Waldegrave regretted that the visit of a British delegation to an Anglo-Soviet working group on human rights, due to meet in Moscow this week, had been cancelled because one of its members was refused a visa. He hoped the setback was temporary. If not, it could prova "a poor omen" for the way the Soviet authorities were approaching the Human Rights conference, due in Moscow in 1991.

Mr Waldegrave warned that UK agreement "in principle" on holding the conference in Moscow remained subject to important conditions.

By 1991, the following measures had to be implemented: promised changes in Soviet criminal legislation; effective guarantees of free speecb, freedom of religion and freedom to emigrate; an end to jail for political or religious beliefs; all long-term refuseniks to be allowed to emigrate, and the Moscow conference held under the same conditions as would pertain in the West.

EUROPEAN NEWS

Italian industry rocked by claims it is pampered

Two recent reports have undermined a business campaign against cuts in state aids, writes John Wyles

ITALIAN industrialists, public and private, are both slightly reeling and definitely indignant at opinions recently given out that they are the most pampered of their kind in Europe.

Barely had they prepared their ripostes last month to a domestic report alleging that Italian companies had pocketed L46,000bn (£20bn) of the state's money last year, than a barrage arrives from Brussels alleging that Italian state aids to industry are far and away the highest in the European Community.

While no one is yet accusing the European Commission of colluding with the Corte dei Conti, the Italian state's independent accounting watchdog, their reports have effectively taken the wind out of the attempt by business to campaign against cuts in industrial aids of around L2,500bn in the draft 1990 budget.

The Corte dei Conte and the Commission came up with not dissimilar figures for the global total of Italian aids to industry: L45,000bn in 1988, according to the Corte; and L41,000bn (Ecu 28bn) annual average for 1981-86, according to the Commission. The latter warns the reader to approach its numbers with caution, while Italy's Confindustria has labelled the Corte dei Conte's findings as virtually unusable.

The industrialists' organisation claims that the Corte has included lots of payments which never find their way into "productive activity" and that a truer figure for 1988 would be L15,000bn (see table).

Around 38 per cent of the Commission's total for Italy are aids which flow from EC regulations and 18 per cent for sectors in crisis such as steel and shipbuilding. The remainder are aids, paid largely as subsidies or tax benefits, allowed as derogations from Article 92 of the Treaty which outlaws aids which threaten to distort competition by favouring certain sectors or companies.

Public sector companies are clearly handsome beneficiaries of Article 92 aids in Italy and there is more than a grain of concern among their top managers about what is seen as an increasingly restrictive view in Brussels of what governments may or may not hand over to the industries they control.

Indeed, the conviction is taking hold in Rome that the European Commission is increasingly prejudiced against public companies in general and fails to understand the special nature of the Italian "state shareholdings" companies in particular.

Government Aids to Industry in Italy*	1986	1987	1988
Capital aids			
Export aids 2,925	3,531	3,394	
Sectoral aids	2,236	2,848	2,656
Industrial and commercial			
Small businesses	400	444	419
Research and innovation	1,513	1,757	861
Public disasters	20	30	19
South and regional aid	1,219	1,044	922
State shareholding cos	2,113	1,187	1,333
TOTAL	10,426	10,841	9,624
Current spending			
Early retirement	-	265	478
Social payments in South	4,192	4,344	4,401
Workers unemployment benefit	2,120	3,167	1,528
TOTAL	6,312	7,776	6,407

*Lbn

Source: Confindustria

The Commission, said Mr Franco Reviglio, the president of Eni, recently "has steadily built up a doctrine based on a presumed advantage that the public company has over the private because of its very nature".

Mr Reviglio is not tilting against Sir Leon Brittan, the present Competition Commissioner, or anyone else in particular. He argues, in fact, that financial relationships between governments and public companies have been getting tougher ever since a "very restrictive" Community directive was adopted in 1980 which sought to maka them more transparent.

As Mr Reviglio made clear to a committee of tha Senate recently, he is unhappy about the amount of discretion Brussels has in policing state aids and, in particular, he wonders whether after 1993 Brussels will continue to accommodate the development role of Italian public companies.

This could be a point of more general Community interest if, as seems likely, the Commission is increasingly disposed to view as unfair any state aid which the free market might not readily supply.

Mr Reviglio has constantly in mind his group's "mission" to reduce the nation's dependence on imported energy and chemicals through investments which have a long pay-off time which he believes the private sector would be unwilling to make.

In the past, the main source *of funds for such investments* have been the so called *fondi di dotazione*, which are the capital injections Italy's state holding companies have received in large annual amounts for the last 15 years.

The Eni president is offended that the Commission regards these as aids subject to Article 92 when, he argues, they are risk capital from the controlling shareholder (the Government) largely used for productive investment.

Although he acknowledges that the *fondi di dotazione* have been heavily drawn on in the past to cover operating losses, the weakness in Mr Reviglio's argument is that the weight of Italian statute and practice has tended to be rather more permissive and politically directed than most market sources of capital.

In fact, *fondi di dotazione* became a prime source of financing for public companies after 1973 when their aggregate losses forced them to abandon the financial markets as a source of capital.

The three main Italian holding companies, Iri, Eni and Efim, are not obliged to pay interest on funds received and are only required to reimburse the Treasury when they are in profit. Iri, for example, has received *more than* L20,000bn in *fondi di dotazione* since 1973 and has returned to the Treasury only L23bn, having had just three profitable years (1986-88) in that period.

Desperate to contain their deficits over the past two or three years, Italian governments have cut right back on their allocations of *fondi di dotazione*, only to replace them with ersatz *fondi* which allow the holding companies to issue Government-backed bonds upon which the Treasury pays both the interest and the principal.

All of which does suggest that Mr Reviglio is right to fear that Brussels and Rome may be on a collision course if the former is bent on a stricter application of market principles to the funding of public companies and the latter fails to set tighter financial targets for its public sector.

Bonn admits it will have to curb energy subsidies

By David Goodhart in Essen

THE highly-subsidised West German coal industry will have to move some way towards accepting the European Community's plans for phasing out energy subsidies, according to Mr Helmut Haussmann, the Bonn Economics Minister, in an unusually blunt speech on coal politics delivered yesterday in Essen.

Mr Haussmann said: "A long-term concept for coal cannot be developed against Brussels."

He also said that the *Kohlepfennig* – the levy on electricity bills which compensates the utilities for the expensive West German coal they are pledged to buy – must be reduced.

The DM10bn (£3.3bn) of annual subsidies for the coal industry and opposition to a more open European energy market is a constant embarrassment to Bonn's free-market image in Brussels, especially since the EC produced a report earlier this year recommending that energy subsidies should be phased out.

Also, the EC, under pressure from France, last March began *a formal investigation* into West German coal subsidies to see if they are compatible with EC competition rules.

The Bonn Government decided not to object officially to the investigation, as demanded by the leaders of the main coal-producing states, and is trying to negotiate a compromise instead.

Mr Haussmann said that tha talks with the EC began in the summer and that there appeared to be the will to reach an understanding. *He* added, however, that if the negotiations failad, Bonn retained its right to make an official objection to the inquiry.

It appears that the EC has unofficially accepted the *Jahrhundertvertrag* arrangement under which the West German utilities have agreed to burn about 41m tonnes of domestically-produced coal every year until 1995, (out of a total production of 73m falling to 65m by 1995).

However, Brussels wants the *Kohlepfennig,* currently en 8.5 per cent surcharge on electricity bills, reduced sharply before 1995.

The surcharge partially covers the difference between the price of West German coal and the world market oil price. An upward trend in the oil price will thus help push it down.

Bonn, however, is unlikely to want a reduction of more than 0.5 per cent a year – partly because there is a big deficit in the surcharge fund to clear up – which may be too slow for Brussels.

After 1995, a sharp reduction of the guaranteed 41m tonnes a year is expected, perhaps down *to about 20m tonnes* a year until 2010, as suggested by one West German economist.

The Bonn Government has handed the post-1995 problem to a commission headed by Professor Paul Mikat which is expected to report next March.

Defending the status quo at the Essen meeting was Mr Heinz Horn, chairman of the German Coal Association.

Ha pointed to the dangerously high EC dependence on energy imports and claimed that supposedly cheap French nuclear power was not much cheaper than Wast German coal.

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Twelve drive a truck through Brussels border plans

By David Buchan in Brussels

IF YOU want an idea of how vital tax is to maintenance of border checks between European Community states, cross from Belgium to Luxembourg. The only sign marking the border says "Taxes" (in English) and directs trucks to stop and deposit transit documents. Non-commercial traffic is simply asked not to do more than 60kph through the border post.

Putting a stop to truck queues at internal borders is a fundamental aim of the 1987 Single European Act which calls for the removal of all internal frontier checks in little more than three years time.

This is a common goal shared by the European Commission and governments of the Twelve. But this week they started to take different paths towards it, with the governments taking the low road of political compromise and the Commission sticking to its high road of economic logic.

After Monday's meeting of EC finance ministers, its chairman, Mr Pierre Bérégovoy of France admitted that the governments' unanimous preference for maintaining the present principle of collecting value added and excise taxes in the country where goods and services are consumed was a compromise; but at least it represented the first time all Twelve had been able to agree on an element of indirect tax harmonisation.

But the Commission fears that, in the case of VAT (overwhelmingly the most significant indirect tax), governments are about to convert one of the most fraud-proof taxes into one of the most frand-prone. Unless, that is, they replace controls at frontiers with so much extra paperwork that they wipe out the economic benefits of doing away with fiscal frontier controls.

This, Commission sceptics believe, may be the result of the governments' proposal to cross-check the documents of every exporter and importer. Some 50m-100m cross-border transactions take place inside the Community every year; double that figure to get the number of such documents that might need checking.

There was a certain beauty (to the Commission at least) in its proposal to treat the collection of VAT on goods crossing EC borders just as it is currently levied on goods staying within a single country. Goods would no longer be zero-rated for export, and crooks would thereby be denied the opportunity of obtaining an export tax rebate and then diverting goods back into home markets.

But the horror (for governments) was that levying VAT at every stage of production across the Community would no longer put all the proceeds in tha coffers of the country of consumption, as at present, but would split it up. Unless – and this was the horror of horrors for governments – they all relied on each others' trade statistics and on tha Commission's proposed clearing house system to reapportion VAT proceeds.

The argument over how VAT is collected is not entirely unrelated to the even more bitter row over the rates at which it is levied. Maintaining the presant system of VAT accruing solely to the country of consumption will tend to maintain the wide national differences in rates, whereas the Commission proposal would have given companies an incentive to buy from lower-rate countries and thus market forces would have teuded to drive rates together (and probably down).

Thus, Tuesday's accord on indirect tax collection leaves governments no nearer, and arguably further from, agreement on rates.

If it can be called progress, the finance ministers did say that special arrangements might be found for the two countries with the biggest worries about distortion of trade if and when frontier checks go. They are Ireland with a standard VAT rate of 25 per cent facing 15 per cent in Northern Ireland, and Denmark with 22 per cent adjacent to West Germany with 14.

In Brussels, "special arrangements" is strongly suspected to be code language for border controls, beyond 1992.

Gaullist censure motion fiasco

By Ian Davidson in Paris

FRANCE'S Gaullist party tried to bring down the Socialist Government ou Monday night, but its censure motion failed dismally and predictably.

The censure motion was targeted on the Government's four-year military equipment law, which would scale back the rate of growth of weapons' spending.

In the event, the Gaullists failed to rally the other conservative parties, and were even deserted by some of their own members. The final vote was 159, far below the 288 required.

The main result has been to undarscore, yet again, tha damaging divisions on the French right. What made Monday night's censure motion so deplorable for the image of the right, was that everybody knew in advance it would fail.

S Korean business under fire for investment failure

By Maggie Ford in Seoul

SOUTH KOREA'S large conglomerates have come under sharp attack in parliament for investing in property and securities instead of upgrading capacity and moving to higher technology manufacturing.

In evidence to the National Assembly Finance Committee, the top 30 business groups were revealed to hold: Won 10,000bn (£9.3bn) worth of property, amounting to about 100,000 acres; Won 6,000bn in marketable securities; Won 37,000bn in local bank loans, 22 per cent of the total lent by banks, and $5bn in foreign loans. Average gearing was 340 per cent.

National Assembly members criticised the big business groups for speculating in property and the stock market while failing to invest in productive facilities.

Pointing out that South Korea had only reached the first stage of development, the MPs said that business had a duty to continue to develop the economy to advanced level. The business groups' push into luxury hotels and golf courses attracted special criticism.

South Korea has run a current account surplus for the past three years and has reduced its foreign debt almost to a net creditor level. But its per capita gross national product has reached only $4,000 and distribution of wealth is becoming less equitable.

The companies have also been criticised for reducing efforts to improve exports and concentrating only on making high profits out of the growing domestic market. The trading arms of the big companies have switched to imports, concentrating on luxury products for which they can charge high prices to local consumers who now have money to spend.

The South Korean markets has been strongly protected from imported consumer products for years, and very little competition exists among local companies, resulting in poor quality goods. Consumers have been eager to buy the better quality imports allowed in since the Government relaxed trade restrictions.

The Government is to introduce a land tax and land reform plan to the National Assembly which is designed to restrict speculators and companies from holding property and stocks without paying tax. It has also placed strong restrictions on bank lending to conglomerates this year to try to control the speculation.

It is likely to welcome the MPs' criticism of the business groups, who have applied enormous pressure on the administration to water down the reform bill.

The big companies are also attracting growing criticism from foreign analysts over their lack of interest in expanding abroad, especially in the context of the unification of the European market in 1992.

"We have made numerous suggestions to the big companies about suitable acquisitions to enable them to internationalise," said one broker. "But most of them are only interested in the domestic market. If they do not move soon, they will be left behind."

The recent acquisition by Sammi Steel of a Canadian steelmaker which will catapult Sammi into the position of the top world speciality steel company is regarded as a good example of the way the South Korean conglomerates should develop.

Bankers believe that the companies are too widely spread in too many industries to succeed internationally in all of them in a fiercely competitive global market.

They point out that that the companies need to upgrade technology quickly and doubt whether this can be done adequately without foreign involvement, either via acquisitions or joint ventures.

Foreign investment in South Korea has totalled only $6.5bn over 25 years, in an economy with annual output of $150bn, mainly because of Seoul's determination to avoid foreign control of its industry. Many analysts believe that the country has now achieved a level of economic strength where such concern is no longer necessary.

Ghost of Marcos haunts US power contractors

Companies may face bribery charges over $2.3bn Philippines nuclear power plant, writes Frank Gray

TWO US companies, Westinghouse Electric and Burns & Roe, are girding themselves for an event that only a few months ago seemed impossible – a US jury trial on allegations that, 15 years ago, they bribed the late President Ferdinand Marcos to win a contract to build a nuclear power plant in the Philippines.

The issue, which has been before a US federal court in New Jersey since last December, has gained added international attention because of the death in exile two weeks ago of the deposed leader.

US legal officials believe Mr Marcos's death may open a floodgate of new evidence about illegal activity in the Philippines during his 21 years in power.

The case has been closely followed by the Philippines' creditors who have collectively lent the country $26bn, the largest part of which is $2.3bn for the plant, which has never been commissioned.

Since President Corazon Aquino replaced Mr Marcos, there have been calls, led by influential US senators, for a repudiation of the debt on the grounds that Mr Marcos was diverting funds.

Some bankers accept that if fraud is proven in a specific instance then the case for repudiation of part of the debt would be greatly strengthened.

Lawyers for the two companies as well as senior executives at Westinghouse in Pittsburgh are worried that a "worst-case scenario" may be looming for them after a US federal court judge's refusal last month to dismiss the case.

Judge Dickinson Debevoise has thus cleared the way for the plaintiffs, the Philippine Government and the National Power Corporation (NPC), to continue to subpoena evidence, including the defendants' corporate files.

Their new evidence will be examined within the next few months and could lead to formal bribery charges being laid against the two companies. Lawyers for Westinghouse, the main contractor for the ill-fated 620MW nuclear power contract, and subcontractor Burns & Roe of New Jersey, have said they will file a third motion to dismiss the claims "at the appropriate time".

However, senior Westinghouse officials expressed frustration this week that they had not been able thus far effectively to kill the bribery allegation, essentially the only remaining count of 15 filed by the plaintiffs when the case was launched last December 1.

The other counts relate to a range of contractual issues connected with the power plant, contracts for which were awarded in 1976 after two years of hectic negotiations by the Marcos government.

The Philippines is paying $350,000 a day in interest for a nuclear plant that has never been commissioned

Mr Marcos fled the country in a bloodless coup in February 1986, and the plant, for which the Philippines Government has raked up $2.3bn-$2.5bn in debts, and is paying $350,000 a day in interest payments, has been mothballed since. All but two of the counts, virtually identical, were referred last spring to the International Chamber of Commerce for arbitration. It is to begin its own closed door hearings soon.

But Judge Debevoise felt at the time that the plaintiffs' Washington lawyers, Shaw, Pittman, Potts & Trowbridge, had made sufficient headway on the bribery claim, which is in violation of US law for companies doing business abroad, to allow further proceedings to continue.

Westinghouse throughout has denied the claim, which revolves around $17m in commission fees paid to Herminio Disini, a Marcos associate now living in exile, at the time of the original contract negotiations in 1974-75.

Westinghouse, the major contractor on the project, and Burns & Roe, consultants in the early stages of the deal, have confirmed the commission fees but stated firmly that they did not constitute bribes.

The plaintiffs' lawyers have argued that the commission fees were funnelled directly to Marcos through dummy corporations. They have filed volumes of depositions from Philippine government and business officials showing how Marcos became directly involved in the contract negotiations, to the point where he overrode the counsel of NPC officials seeking to establish a fair contract with the two companies.

After the judge's initial decision last spring, Westinghouse said it would move to quash the remaining bribery claim, which in the language of the law, said the two companies were involved in a "conspiracy to interfere with fiduciary duties owed to the Philippine people and the NPC".

Since then more argument has a taken place with a change of tack by Westinghouse's lawyers, Cravath, Swaine & Moore and Shanley & Fisher, both of New York.

Their recent submissions have barely referred to the bribery issue, and the defendants have, instead, argued that they were operating a contract awarded by a president who was the law, a state of martial law existing in the country at that time.

By implication, they were doing business in an extraordinary environment. The plaintiffs, however, have argued that despite martial law, Mr Marcos was not the law nor was he above it.

They argued, he was in violation of his "fiduciary duty to the people of the Philippines" in accepting payments to influence the award of the nuclear power plant contract.

After weighing the evidence, Judge Debevoise convened the two sides on September 13 for oral arguments, and surprised the legal teams by denying the defendants' second motion to dismiss the bribery claims, rather than passing judgment at a later date.

"The court does not have to decide the legitimacy or illegitimacy or legality or illegality of the Marcos regime. It only has to decide whether bribery and/or acceptance of a bribe in the circumstances alleged in this case was lawful or unlawful under then applicable law," he said.

In addition the case will be affected by evidence being gathered on Mr Marcos's US business dealings by two sitting US grand juries, one in Pittsburgh and the other in New York, the latter related to the impending trials of Mr Marcos's wife Imelda.

Frank Gray is editor of Power in Asia, a Financial Times publication

Iran moves to adjust complex system of exchange rates

By Kamran Fazel in Tehran

THE Iranian Government has taken a first step towards adjusting its grotesquely overvalued currency, the rial, by setting up a new exchange rate for the import of goods for use by the public sector.

From this week, businessmen dealing with state organisations are being allowed unrestricted access to dollars through the state-owned Bank Tejarat at a so-called "competitive rate", which is currently quoted at 1,000 rials to the dollar. This is close to the free-market rate of around 1,150 rials. The official rate is 73 rials to the dollar.

The adoption of the new rate is aimed specifically at combating the rampant black currency market and at stimulating industry, which has been starved of raw materials and spare parts because of a shortage of foreign exchange.

It may also be a prelude to rationalisation of Iran's byzantine system of multiple exchange rates. Mr Mohsen Nourbakhsh, the new Economy and Finance Minister, said in late August that he would give priority to "a complete review of Iran's foreign exchange market". Apart from the official and free-market rates – which have generally differed by a multiple of between 15 and 20 – there are two other artificial rates, a trade rate and a preferential rate. The red tape surrounding the system has given rise to much corruption.

President Ali Akbar Hashemi Rafsanjani, who is concentrating attention on Iran's war-shattered economy, has this week reiterated his intention to move towards a unified exchange rate.

However, the Government will probably hesitate before contemplating a wholesale devaluation of the currency. This would further stoke price rises in a country which is already struggling with inflation unofficially estimated at 40 per cent.

The start of the Government's battle against the black market this week is expected to provoke a rush of applications for foreign exchange at the new rate. The risk is that it may also drain Iran's reserves, now estimated at a relatively healthy $6bn. Financial experts in Iran point out that the authorities will need to secure the co-operation of the bazaar merchants if they are to have a hope of succeeding.

Rabin says boycott on tax will be ended

MR Yitzhak Rabin, the Israeli Defence Minister, vowed yesterday that Israel would not allow Palestinians to boycott taxes in the occupied West Bank town of Beit Sahour, Reuter reports from Jerusalem.

Mr Rabin said at a parliamentary committee meeting: "There will not be any attempt to boycott taxes. If it takes a month, it will take a month, *but they will break*.

"We are going to teach them a lesson."

The mayor of Beit Sahour, Mr Hanna al-Atrash, said some 600 merchants, artisans and workers are boycotting Israeli taxes under the slogan: "No taxation under occupation."

Mr Rabin angrily rejected criticism by human rights groups and Western diplomats of army seizures of furniture, household equipment and merchandise worth more than $750,000 from residents withholding taxes.

His blunt language recalled tough statements last year when he vowed to crush the Palestinian uprising with "might, force and beatings," offending many of Israel's allies.

Last week troops blocked seven West European consuls-general who tried to visit Beit Sahour at the request of Mr Atrash to express their governments' concern about the Israeli action.

"The consuls will not hold demonstrations there and Faisal Husseini will not hold news conferences," Mr Rabin told parliamentarians.

The army earlier took the unprecedented step of declaring part of central east Jerusalem a closed military area to prevent Mr Husseini, a nationalist leader, holding a news conference in support of the Beit Sahour tax strike.

Mr Husseini and the human *rights groups say Israel is* victimising Beit Sahour because of its non-violent resistance to the occupation.

Israeli security sources said tax raids would resume today and the Defence Ministry has ordered that seizures be accelerated to complete the campaign *before an international* protest campaign gathers momentum.

Israel's West Bank administration said it would start to auction the confiscated cars, video recorders, radios, televisions and machines this week at an army base near Tel Aviv.

Underground leaders of the 23-month-old Palestinian uprising called a five-day general strike from last Thursday in support of the Beit Sahour residents, a largely Christian middle-class town of 12,000 people, near Bethlehem.

The town has been a centre of peaceful civil disobedience since the start of the revolt, planting vegetable gardens to strive for self-sufficiency in food.

Arbitration setback for Australian pilots

By Chris Sherwell in Sydney

THE Australian Federation of Airline Pilots yesterday suffered another setback in its attempt to force the country's domestic airlines to negotiate settlement terms in its protracted pay dispute.

The blow was handed out by the Industrial Relations Commission, Australia's principal conciliation and arbitration body, which refused to order a compulsory conciliation conference requested by the federation.

The Commission ruled that contracts which the airlines had offered to individual pilots provided a suitable basis for a new agreement on pay and conditions under the country's national wage guidelines.

It also declared that the federation, whose members had resigned their jobs en masse in support of their claim, did not represent existing employees of the airlines – in effect cutting it out of the dispute.

The federation last week withdrew its 29 per cent pay claim in the hope of negotiating a new agreement on the basis of the individual contracts, which provide for substantial pay increases in return for productivity gains and substantial overtime.

Last Friday the federation went further, and in a move *widely seen as a backdown*, applied for the conciliation conference and offered to accept arbitration by the Commission if the Commission recognised it as the union responsible in a new agreement.

Yesterday's Commission decision provoked a *furious* reaction from the federation. The decision showed the "absolute and complete failure" of the Commission to resolve the dispute, it said, adding that federation members would not sign the contracts on offer because those would "take working standards back beyond the 1950s".

The federation added that it was taking legal advice on whether it should seek support from the High Court in Canberra on the basis that it had been denied natural justice.

Since it began in August, the confrontation has brought the shutdown of the domestic airline system for three weeks and then seen the airlines struggling to rebuild their services from scratch.

The airlines – Ansett, owned by the TNT and News groups, and the state-owned Australian Airlines – together with leased foreign aircraft and crews, international carriers and the Royal Australian Air Force, currently claim to be providing around three-fifths of normal seating capacity on domestic routes.

HK talks fail about illegal immigrants

By John Elliott in Hong Kong

BORDER talks between China and Hong Kong yesterday failed to end Peking's latest war of nerves against Hong Kong which started at the weekend over the treatment of illegal immigrants from the mainland.

Since Sunday, China has suspended its normal practice of accepting back an average of about 60 Chinese nationals a day who dodge army patrols to cross the border into the British colony. *This is in retaliation* for Hong Kong last week sending a Chinese swimmer to the US instead of repatriating him.

Sir David Wilson, the Hong Kong governor, yesterday said he was concerned at China's move and denied that the handling of the swimmer's case had violated a 1982 repatriation agreement with Peking

The situation is serious for two reasons. First it marks a new low point in relations between Peking and Hong Kong which returns to Chinese sovreignty in 1997. Since the Tiananmen Square crisis in June Peking has been especially sensitive about activities in Hong Kong because of strong reaction to the suppression of the student demonstrations.

Secondly, Hong Kong's detention camp facilities are stretched by the presence of *around 50,000 Vietnamese boat-people.*

Peking cuts ties over recognition of Taiwan

By John Elliott

FOR THE second time in two months, Peking yesterday took diplomatic action aimed at curbing international recognition of Taiwan, when it announced that it was suspending its ties with the small African nstion of Liberia.

This follows a decision by Liberia to recognise Taiwan from the beginning of this month. Early in August Peking broke off diplomatic relations with Granada shortly after the Caribbean island gave Taiwan recognition.

Taiwan, which claims it is the legitimate government of all China, is now recognised by a list of 25 mostly small countries. It has dropped its earlier objections to establishing formal ties with countries which already recognise Peking. But Peking, which claims sovreignty over Taiwan, is not prepared to go along with such dual recognition.

Taiwan is trying to use its growing economic power as the world's 13th largest trading nation to increase its international recognition. *Countries which establish formal* ties can expect to obtain preferential aid allocations from a $1bn Overseas Economic Co-operation and Development Fund set up by Taiwan recently and might expect to gain more from such economic aid than from their existing relatively dormant relations with the mainland.

Namibia violence seen as threat to UN peace plan

By Patti Waldmeir in Johannesburg

ESCALATING violence between rival political groups in Namibia is threatening a United Nations-sponsored peace plan for the territory, four weeks before independence elections are due to take place.

Serious concern over the violence was expressed yesterday from both ends of the political spectrum, as well as from the United Nations, which is monitoring Namibia's transition to independence.

Spokesmen for the UN, for South Africa's Administrator General in the territory, and for the South West African People's Organisation, the country's largest political party, all condemned last weekend's clashes between supporters of Swapo and the its main political rivals, the white-backed Democratic Turnhalle Alliance (DTA).

Three people were killed in the violence and at least 30 were injured when clashes broke out after Mr Sam Nujoma, the Swapo president, addressed an election rally in the northern town of Oshakati.

Officials of the UN, the South African administration and Swapo all agreed that the independence timetable – which calls for elections to a constituent assembly to begin on November 7 – was unlikely to be disrupted despite the escalating conflict.

The UN and the Administrator General were appealing to political parties to exercise restraint, and they were hopeful that further serious violence could be averted. However if the situation continued to deteriorate, the holding of free and fair elections under UN resolution 435 would be in jeopardy.

Mr Javier Pérez de Cuéllar, the UN Secretary General, has also criticised the territory's police force, the South West African Police (Swapol), for failing to co-operate with UN staff in Namibia.

Buthelezi warns against sanctions

BRITAIN should stand firm against European Community funding to those supporting "revolutionary violence" in South Africa, a fringe meeting of Tories was told in Blackpool today, PA reports. Chief Mangosuthu Buthelezi, Chief Minister of the South African homeland of KwaZulu, warned that sanctions would not help bring an end to apartheid.

He praised the position of Mrs Margaret Thatcher, Britain's Premier, on South Africa and warned that EC money was being used to support those in favour of violence. He said the vast majority of South African blacks wanted more investment and more jobs.

Gandhi to be urged to quit over Bofors

By K.K. Sharma in New Delhi

INDIAN opposition parties intend to use today's opening session of Parliament to demand the resignation of Mr Rajiv Gandhi, India's Prime Minister, and Mr K.C. Pant, the Defence Minister, over the Bofors arms affair.

They intend to make the issue the focal point of the brief four-day parliamentary sitting.

It follows disclosures by The Hindu of Madras that large commissions were paid to an Indian agent by the Swedish group which was awarded a controversial $1.4 bn contract for the supply of howitzers to the Indian army in 1986 when Mr Gandhi was Defence Minister.

Because of Bofors, the opposition is unlikely to allow normal parliamentary business to be transacted. As opposition members resigned en masse from the lower house last July over Bofors, the main battle will be fought in the upper house.

The Government has admitted that the Swedish ambassador had been asked to verify the report of the Swedish National Audit Bureau published by The Hindu.

Mr Gandhi has repeatedly denied the involvement of any Indian middlemen in the affair. A parliamentary committee – boycotted by the opposition – came to the same conclusion.

Jailed Israeli pacifist vows to continue talks

PEACE activist Mr Abie Nathan, convicted of meeting with PLO chairman Mr Yassir Arafat, began serving a six-month prison sentence yesterday and said he would continue his peace efforts, AP reports from Eyal in Israel.

Mr Nathan told about 700 supporters gathered outside the police complex that he would push for Israel to talk with the Palestine Liberation Organization.

"They clipped my wings only for a little while, but they know I will be back on the air," said Mr Nathan, who runs the pirate radio station "Voice of Peace."

"I will fly to every corner of the earth. If I have to search out the enemy, all enemies, to try to convince them that dialogue must take the place of confrontations on the battlefield," he said.

Speaking in Hebrew and English, Mr Nathan said "too many young Arabs, Israeli soldiers, innocent civilians have lost their lives. ...The only way is to talk to each other. That's why I am going to prison."

Mr Nathan, 63, was convicted last monthof meeting Mr Arafat and other PLO activists in Tunisia and France in September 1988.

He was charged with violating a 1986 amendment to Israel's anti-terror law forbidding meetings with terrorist organisations. Israel considers the PLO to be a terrorist group.

Mr Nathan pleaded guilty to the charge, telling the court, "I acted in order to save the lives of people, and I am prepared to break the law to achieve this."

Early this month Mr Nathan was sentenced to six months in prison.

Rawlings caught between two images and one harsh reality

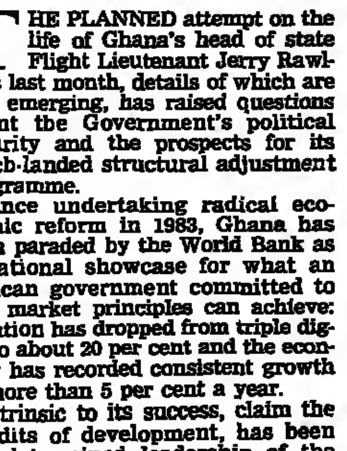
Africa's 'Castro' finds that being world capitalism's darling makes for confusion at home, writes William Keeling

THE PLANNED attempt on the life of Ghana's head of state Flight Lieutenant Jerry Rawlings last month, details of which are still emerging, has raised questions about the Government's political security and the prospects for its much-lauded structural adjustment programme.

Since undertaking radical economic reform in 1983, Ghana has been paraded by the World Bank as a national showcase for what an African government committed to free market principles can achieve: inflation has dropped from triple digits to about 20 per cent and the economy has recorded consistent growth of more than 5 per cent a year.

Intrinsic to its success, claim the pundits of development, has been the determined leadership of the head of state and his acceptance of "market realism". This is an image with which the leader himself has serious misgivings.

Flt Lt Rawlings led a failed coup attempt against the corrupt regime of General F W K Akuffo in May 1979. At his trial he protested against seven years of military misrule: "This nasty state of affairs," he said, "can only be remedied by going the Ethiopian way."



Rawlings: elusive goal

A month later he was sprung from jail and was swept to power on the back of a national uprising.

After three months he relinquished power to an elected civilian regime only to instigate its overthrow on New Year's eve in 1981. He accused the administration of corrupting the moral fibre of the nation and called for the creation of defence committees as organs of revolutionary popular power.

This is the alternative image: chairman Rawlings, a leader in the mould of Fidel Castro, a frustrated patriot of high moral principle committed to the socialist revolution. It, too, is an image with which he has reservations.

Flt Lt Rawlings is a man who knows what he wants ("Freedom, Justice and Accountability for a Greater Tomorrow," the slogan reads) but has found his goal elusive.

By the time the government of the Provisional National Defence Council (PNDC) took control, the nation was bankrupt, unable even to pay for its oil imports. Sufficient finance from the Eastern bloc was not forthcoming and the Government was forced to turn to the coffers of the West.

"We had no choice," is a phrase often used by ministers to explain their acceptance of International Monetary Fund and World Bank conditional financing. To offset what many saw as capitulation to "neo-colonialist" institutions, the Government has continued to express hard-line rhetoric.

Thus, the political security of the PNDC has been undermined by having to straddle the stereotypes of revolutionary socialist and free market capitalist.

Yet the leadership must bear some of the blame, for there has been a lack of visible effort to cultivate the essential middle ground which a long-term recovery programme demands. There exists a fully-fledged programme, foot and budding flowers, but here is nowhere to plant it. As a result the economic recovery has a crisis of identity.

Flt Lt Rawlings has so far compensated for the lack of middle ground through force of personality: whatever the contradictions within the administration, whatever the contradictions within the man, the head of state remains "genuine", a notion from which the regime derives its credibility.

But pressures on the leader are likely to increase.

He needs to consolidate power to ensure political security and so provide a stable environment for private investment upon which future recovery depends. At the same time, structural adjustment entails decentralisation of the decision making process and a loosening of political control, in particular over the economy, a move which hardliners oppose.

An essential consensus within government has still to be achieved over the selling of state-owned enterprises and the role of multinational corporations within the economy. Though these issues need to be forced (the present hiatus only diminishes investor confidence), to do so is to court danger.

All this has to be done with the acquiescence of the people whose suffering the recovery programme, despite its impressive statistics, has done little to alleviate. Although the costs of non-adjustment could well have been greater, the majority of people are still faced for the foreseeable future with the grim reality of continued poverty.

Military machinations at the top will result in increased public pressure on the Government to extend the democratic process beyond a recently established local government apparatus.

Economic reform is a long-term process but, as the latest coup attempt has shown, there is no certainty that Flt Lt Rawlings' PNDC is a long-term government.

Sindi leader goes into hiding

AN 85-year-old Pakistani activist has disappeared after he was ordered detained for a month following a demonstration by supporters, according to officials, our Foreign Staff reports.

Mr Ghulam Mohammad Syed, who seeks independence for the southern province of Sind, heads the small but militant Sind National Alliance. This advocates secession because it claims Prime Minister Benazir Bhutto, also from Sind, has failed to give the province greater autonomy.

Mr Syed is thought to have gone to the neighbouring province of Baluchistan which is run by an opposition party also demanding greater autonomy.

Rebels' peace plan for Sudan 'wins support'

By Mike Hall in Lilongwa, Malawi

SOUTHERN African leaders have given support to peace proposals by the rebel Sudan People's Liberation Movement, according to diplomats in the region.

Colonel John Garang, chairman of the SPLM and leader of its military wing, the Sudan People's Libaration Army, is touring neighbouring countries to gain political support for a four-point peace plan presented to the new military government in Khartoum in August.

So far he has held talks with the presidents of Zimbabwe, Zambia, Malawi and Botswana. He held talks with President *Joaquim Chissano of Mozambique* at the weekend.

Sudan's government has criticised the sonthern African nations for allowing Garang to visit, saying the countries shonld "help in solving Africa's prohlems instead of receiving outlaws."

"It is a mission for peace," Col Garang said. He had received a "very positive" response to his proposals from the leaders he had met.

The SPLA, which is based in the Christian and pagan south of Sudan, has been involved in a six-year war against successive Moslem-dominated governments in the north.

"The *SPLM* peace programme calls for unity, when the government calls for separation. All African heads of *state support* unity in the context of justice and equality for all," he said.

Last week a gronp from southern Sudan presented a petition to the military government calling for a separate state in the south. Col Garang said this was a "gimmick".

The SPLA's proposal, which is being considered by the government of General Omar al-Bashir, who seized power in June this year, calls for a "broad-based government of national unity", he said.

A new government, involving all non-sectarian *political* parties and an alliance of trade unions, should be set up. This would be supported by a new army, including his own forces. A national constitutional conference and free general elections would follow.

Although Col Garang denied he was looking for material support from southern African states, diplomats said non-military aid was likely to be forthcoming.

Burma outlaws privilege for ousted military men

By Chit Tun in Rangoon

THE STATE Law and Order Restoration Council of Burma has made it a criminal offence for ousted military servicemen to describe themselves as "retired", or to display the military *rank they held while in* service.

The law applies to all military personnel who were "removed, dismissed or cashiered or granted ouly a gratuity for their military service". It also applies to former *military* personnel who are convicted of criminal offences specified by the defence ministry.

Those found quilty face prison sentences of up *to* five years and/or a fine of up to kyats 5,000 ($679). The purpose of the law is to prevent disgraced military personnel from enjoying the prestige and respect normally shown to *members* of the armed forces by Burmese society.

U Tin U, president of the opposition National League for *Democracy, will no* longer be able to describe himself as a former general and a former chief-of-staff of the Burmese *armed forces because of his* involvement in a coup attempt soon after his retirement in 1976 and as a result of the seven-year *prison sentence* he received for this offence.

UN cuts aid rations to Cambodian refugees

THE United Nations has cut its *food rations to* tha largest Cambodian refugee camp because some of its aid has been diverted to guerrillas fighting inside Cambodia, relief sources said yesterday, AP reports from Thailand.

Sources said food aid at Site Two was cut by nearly 20 per cent after disclosures that refugees were selling or otherwise diverting the food to the military.

Site Two houses more than 180,000 followers of the Khmer People's National Liberation Front, one of three major guerrilla *groups fighting* the *pro-*Hanoi government in Cambodia.

Tha KPNLF recently launched an offensive against the Cambodian army from its bases along the Thai-Cambodian border and claimed to have scored major successes.

A spokesman of the UN Border Relief Operation, Robert Burrows, said regular rations to the residents of Site 2 had not been reduced.

"Unhro has regretfully decided to suspend further delivery of administration *workers' rations and some of* the social rations pending clarification of their use," he said.

Administration rations are *given to Cambodians* at the camp who help distribute food to the general population or otherwise help with administration of the camp. Social rations are special food supplies given to certain well identified groups such as single-parent families.

Relief officials note that diversion of food, medicine and other humanitarian aid provided by aid agencies to the refugees has been going on since the program began a decade ago.

Some said officials privately have been especially critical of the aid being supplied to Khmer Rouge guerrillas, who exercise rigid authority over civilians under their control.

Human rights organisations have cited numerous human rights abuses at the Khmer *Rouge camps, where monitoring* of international aid is far more difficult than in camps of the KPNLF and a group loyal *to resistance leader Prince* Norodom Sihanouk.

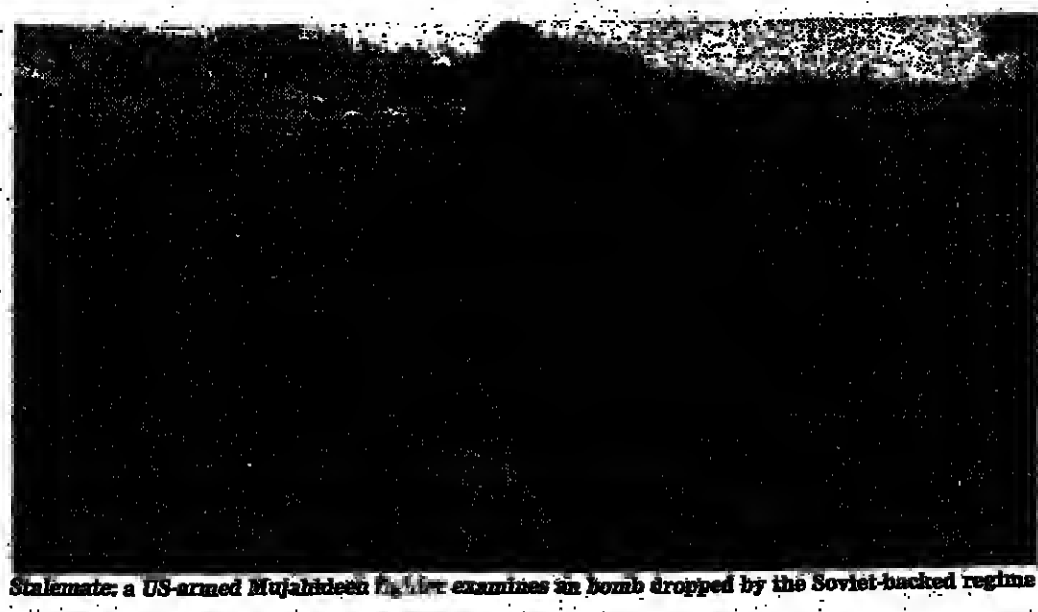
Power-brokers maintain Afghan stalemate

Christina Lamb examines the effects of wavering foreign support on the mujahideen

THE theory goes that if something is said often enough, people start believing it. The US and Pakistan conduct their Afghan policy on this basis.

Officials repeatedly state that the US-backed Mujahideen have stepped up military activity and that their interim government is getting its act together.

One can cry wolf too often, it seems. Western embassies fled Kabul when the US and Pakistan said the regime of President Najibullah could not survive once the Soviet troops had left; they were believed that Jalalabad would fall within a week of the Mujahideen attack in March; and the assumption that *Mr Najibullah's People's* Democratic party (PDPA) has no grassroots support goes unchallenged.



Stalemate: a US-armed Mujahideen fighter examines an bomb dropped by the Soviet-backed regime

But as winter nears they are finding it increasingly difficult to convince people that the Mujahideen can miraculously reverse their battlefield fortunes and win the war.

Military pressure is necessary even if the sides decide to negotiate, in order to get the best possible deal. But the question is, where is it? Few commanders are actually fighting at present, which in US *terminology is "latefighting* season," and rockets on Kabul do little more than alienate the civilian population.

Moreover clashes between the seven resistance parties are becoming increasingly violent.

The key for a military victory is Kabul and two of the strongest groups in the area, those of fundamentalist leader Gulbuddin Hekmatyar and Commander Ahmat Shah Massoud, are fighting each other after one of Hekmatyar's commanders reportedly massacred 32 of Massoud's men.

Yet, despite the cost in lives and strained relations with the soviets, the Bush Administration seems determined to "fight to the last Afghan." A European diplomat complains, "the policy is naive, shortlived and almost untenable."

It could be argued that there is no policy. At the same time as pushing for a military victory, the US is not supplying the quantity or type of arms necessary.

The Spanish mortar shells they have promised to send are too sophisticated for the Mujaheddin. Commander Mohammad Tahir argues "the Americans must make up their minds. Either they support this war strategy wholeheartedly or they find an alternative."

What worries people is the apparent lack of effort being put into finding a political process to bring about a ceasefire and broad-based government to end the 10-year war which has claimed 1.3m Afghan lives.

Yaqub Khan, Pakistan's Foreign Minister, went to Washington in June with a list of alternatives but was firmly told there should be "no fall-back position".

When Benazir Bhutto took over as Prime Minister in December, she agreed not to interfere with Afghan policy and has not done so. Policy is still formulated in GHQ.

There was brief optimism when Ms Bhutto removed Gen Hamid Gul, the head of Inter Services Intelligence (ISI), the military organisation which had been both implementing and formulating Afghan policy.

It was committed to a military solution, *preferably led by* Hekmatyar, who receives the lion's share of US arms. However, Gen Gul's replacement, *Gen Kallue*, apparently threatened to resign recently, unable to get ISI to co-operate with him.

Despite the increasingly isolationist stand of Hekmatyar, ISI commanders refuse to drop him and are so keen to get their *man into Kabul that they* organised a huge rally for him to scare the US from backing away from him.

Although the moderates among the Mujahideen leaders are eager for an end to the war they do little themselves to find a solution.

Even if the US is right that no one accepts Mr Najibullah, analysts are beginning to question whether the Mujahideen leaders have popular support. No one is defecting to the Mujahideen government which has made no attempt to become more broad-based.

President Najibullah is the only card the Soviets have and though they have previously indicated a willingness to drop him, they will not do so while there is no credible political process to bring about peace.

Qadratullah Ahmadi, the Afghan Chargé d'Affaires in Islamabad, complains that all initiatives are coming from the regime side.

"Wa have proposed a ceasefire 56 times and presented 33 proposals to solve the crisis." Although Mr Najibullah has survived without Soviet troops though plenty of hardware, the US seems to believe it can only induce the Soviets to give him up by insisting on the Mujahideen interim government which US officials admit, privately, has failed.

US diplomats who have doubts about the wisdom of current US policy have left Pakistan. The CIA line of "military victory or bust," prevails. In fact after a battle with ISI over accountability of arms distribution, and the removal, of General Gul, the CIA is more directly involved.

Some diplomats attribute the US failure to come up with a new initiative to end the war to the Vietnam syndrome.

Almost all those associated with Afghan reporting in Islamabad are old Vietnam hands and openly talk of wanting revenge for the defeat in Indochina which can only be satisfied by a *Mujahideen* government in Kabul.

US report says 'Soviets are still operating missiles'

IT APPEARS likely that the Soviet Union still has advisers in Afghanistan despite a pledge to withdraw all its forces, a White House spokesman said yesterday, Reuter reports from Washington.

"I don't have any comment on intelligence information," *Mr Marlin Fitzwater*, White House spokesman, said in response to a report that Soviet advisers were assisting *the Afghan military* in using missiles against rebel forces.

But "it seems a likely conclusion," Mr Fitzwater added, declining to elaborate.

The US Government is believed to have evidence that Soviet advisers are still in Afghanistan, firing Scud missiles at guerrillas, despite the Kremlin's assertion that all Soviet troops have been withdrawn.

US newspaper reports said a confidential report stated that *all functions* connected with security, transport, storage and the launch of Scud missiles were handled by Soviet advisers wearing Afghan uniforms.

The report was prepared by US intelligence agencies for the State Department and the White House, it was claimed.

According to the New York Times, US officials said the presence of Soviet advisers might violate the Geneva accord of April 1988, which *required the withdrawal of all* Soviet troops by February 15 this year.

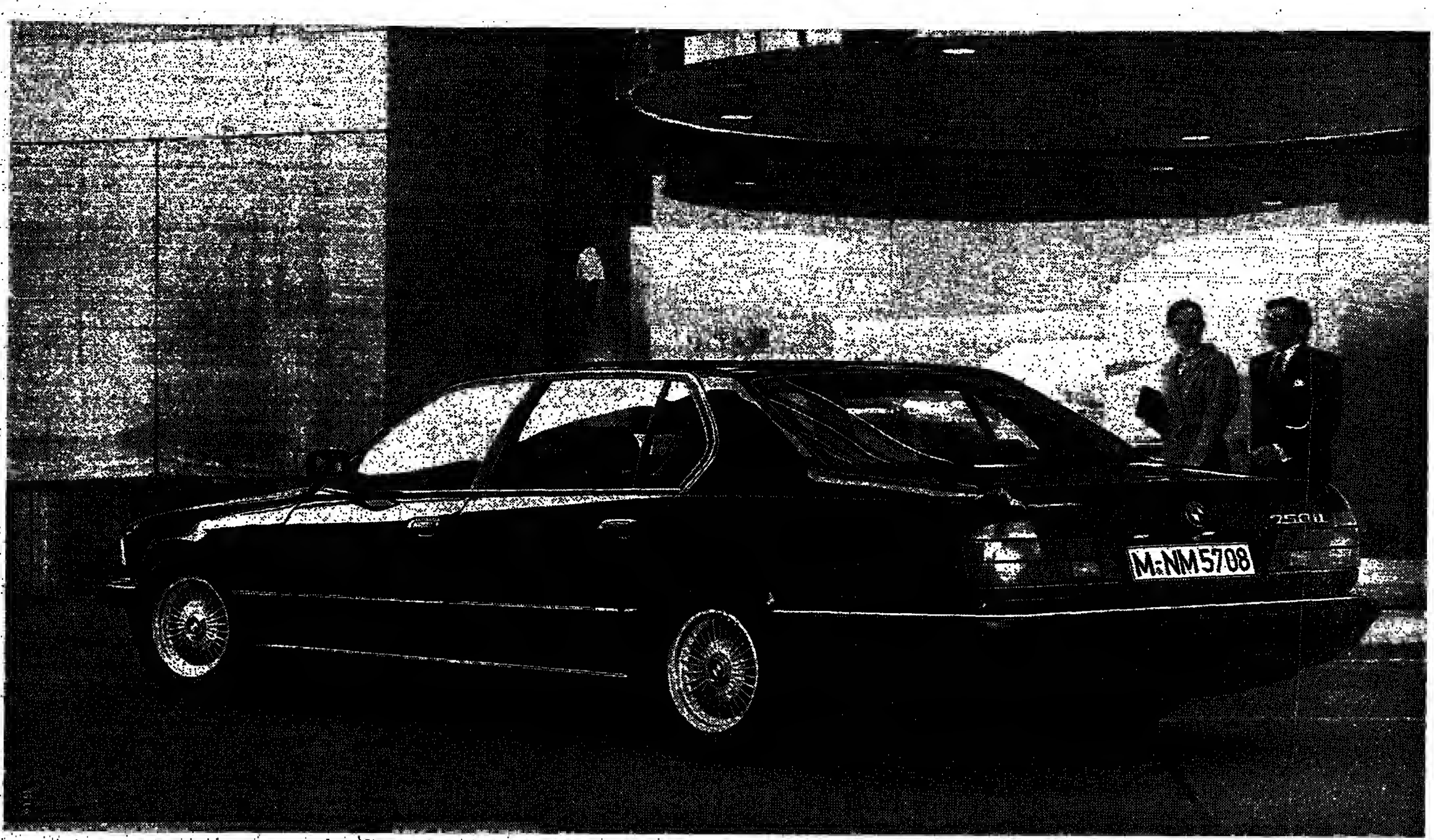
Mr Peter Tomsen, the US special envoy to the Afghan guerrillas, is quoted as saying there were at least 300 Soviet advisers in Afghanistan.

Other Soviet officials are alleged to have helped in planning operations, repairing equipment and training Afghan personnel.

The paper said the reported presence of Soviet advisers was not the *only* reason for the survival of the Kabul government, which US officials had expected to have collapsed by now.

● In Kabul, meanwhile, rebels rocketed the Afghan capital killed 23 people, the official Kabul Radio said.

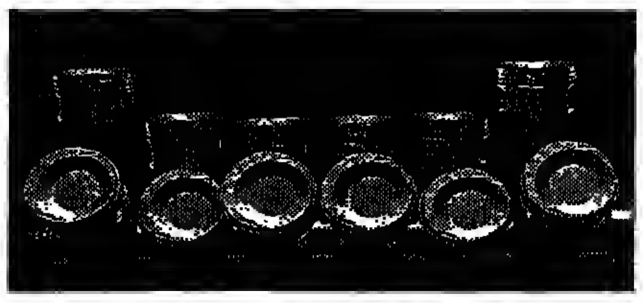
A number of people were also wounded by the five surface-to-surface missiles fired into residential areas, the broadcast monitored in Islamabad said. It said the victims' limbs were scattered in the streets hit by the rockets.



A GENTLEMAN'S AGREEMENT HAS NEVER CARRIED SUCH CONVICTION.

It is generally agreed that the BMW 7 Series deserves its leading position worldwide because of its outstanding technical performance and its convincing overall concept.

The BMW 750i/iL is the best example. The long wheelbase, wide track and elegant lines are unmistakable. This limousine sets new standards. When the engine is started, it becomes immediately apparent that it is not just any engine. It is a 12-cylinder BMW unit with 220 kW/300 bhp available. Power reserves which come into action practically without a sound.



■ Silent fascination: BMW 12-cylinder engine, completely electronically controlled, 4988 cc, 220 kW/300 bhp.

An engine capacity of 5 litres and a maximum torque of 450 Nm provide the type of acceleration normally only associated with sports cars. The handling properties of this limousine are also impressive – effortless power and safety are combined in an inimitable manner. The precision swinging arm suspension makes a decisive contribution to the way in which the BMW 750i/iL deals with any type of road – sharp and restricted corners or long stretches of motorway.

The practically optimum load distribution of 49:51 between the front and rear axles ensures perfect tracking and precision handling. The driver and passengers will appreciate the style and luxury exhibited by this limousine.

The interior, which caters for practically every whim, fulfils the very highest standards. Perhaps it is time to follow your conviction and make an agreement with your BMW dealer.

The ultimate driving machine

Farmers to fight insurance ruling

By Louise Kehoe in San Francisco

FARMERS Insurance Group, the California-based insurer owned by BAT Industries, has stepped up its battle against insurance regulation in California, its biggest market, with a challenge to the authority of the State's Insurance Commissioner.

Farmers said it would go to court to seek a stay of action upon a state-wide motor insurance premium rate freeze imposed by California Insurance Commissioner Roxani Gillespie last week.

Mrs Gillespie announced the freeze after Farmers had said it would increase its rates by an average of 5.9 per cent on November 1. The insurer said losses in the state's assigned risk plan, under which high-risk drivers can obtain auto insurance, made the increases essential. Farmers said it was losing $250,000 a day as a result of its mandated participation in the plan.

On Friday, Farmers said it would go ahead with its rate increases, despite the freeze order.

Yesterday Farmers said it would ask the court to clarify several legal matters relating to the freeze including the authority of the Commissioner to impose the freeze.

The State of California represents the largest regional motor insurance market in the world with $12bn in premiums collected annually.

Regulation of California's casualty and liability insurance market was dramatically reformed by the passage of Proposition 103 last November. The ballot measure called for rate cuts of over 20 per cent.

Insurers have fought bitterly against the cuts. Last year, they won a state Supreme Court ruling that they have the right to make a "fair return". Since then hundreds of insurers have appealed for exemption from the rate cuts.

Mrs Gillespie, who is charged with hearing these appeals, has been under attack by consumer groups for allegedly stalling the implementation of Proposition 103. Her moves to assuage consumers have now, however, angered the insurance industry.

Bush set to reject special aid for HDTV

By Peter Riddell, US Editor, in Washington

THE Bush administration is nnw certain to reject e policy of specific assistance for high definitinn television and instead to adopt a broader-based programme of removing barriers to the development of new technologies.

Proposals are now being prepared for presidential decision towards the end of the year, iucluding tax credits for research and development, and relaxation of anti-trust rules to allow the formation of productinn consortia, as well as the reduction in capital gains tax now being debated by Congress.

The shift in approach has been signalled in recent comments by Mr Robert Mosbacher, the Commerce Secretary, who earlier this year was a strong advocate of singling out HDTV for help.

HDTV, which offers a much sharper television picture, is being developed by both Japanese and European groups. American electronics groups have called for government help to ensure that the US is a leading force in what is expected to be a rapidly expanding market in the 1990s.

However, Mr Mosbacher has said that HDTV cannot be treated as a special issue. He has rejected measures specifically aimed at HDTV, though these may still be pursued in Congress.

Mr Mosbacher said he expects the current inter-agency review to "come forth with some relief" in the anti-trust area.

The change not only reflects the acceptance by Mr Mosbacher and his advisers that HDTV needs to be seen as part of a larger "telecommunications/information age problem", but also more specifically the strong opposition of other members of the Bush administration to anything which smacks of an industrial policy.

Mosbacher: shift of approach

L America summit on cocaine

PROTECTED by army troops and 3,000 policemen in a remote Peruvian village, the presidents of Peru, Colombia and Bolivia will meet on Tuesday to discuss developing a common cocaine strategy, AP writes from Lima.

The meeting was expected to include criticism of US President George Bush's emphasis on military aid against the cocaine trade.

The United States has recently sent Colombia helicopters and other hardware to help fight the drug traffickers, who responded to the Government crackdown by declaring war on Colombian institutions.

Mr Bush has also recently announced $261m dollars in aid to Colombia, Peru and Bolivia to fight the cocaine trade.

Both Peru and Bolivia have called for further economic aid from the United States to provide alternate sources of income to the thousands of peasants growing coca, the raw material for cocaine.

Ica, a remote town of 350,000 inhabitants in the desert 185 miles (300 kilometers) south-east of Lima, has limited road access for better security.

The meeting will be followed by a summit of the Group of Eight Latin American countries on Wednesday.

US evacuates Panama rebels

By Tim Coone in Panama City and Nancy Dunne in Washington

THE surviving leaders of last week's attempt to topple Panama's strongman, General Manuel Antonio Noriega, have been flown to the US.

Fourteen rebel officers of the Panamanian Defence Forces (PDF), and 26 of their relatives arrived at a military base in the US on Sunday after being flown out of Howard US Air Force base in Panama.

Meanwhile, more has emerged about why the coup failed. Mr Pete Williams, spokesman for the Pentagon, said there had been an argument between Major Moises Giroldi Vega, the coup leader, and his co-plotters about what was to be done with General Noriega. The major insisted that the general not be turned over to the US, where he is wanted on drugs charges. During the argument, the general was able to get a message to his backers and summon help.

The US was informed that the coup would take place last Monday if Gen Noriega came to his headquarters. If he did not appear Monday, then it would happen Tuesday.

"There's evidence now that there was some confusion among the plotters about whether in fact there would be a coup on Tuesday," Mr Williams said.

Mr Marlin Fitzwater, the White House Press Secretary, continued to defend the Bush Administration's role and the decision not to send in US armed forces to assist the plotters. The White House "had plenty of information," and had no doubt about "the correctness of the decision."

He said the Panamanians would be treated as refugees.

According to the Washington Post, the refugees, in hiding in Miami, include Capt Javier Licona, the highest-ranking coup leader who survived.

The group is also said to include Mrs Adela Bonilla Giroldi, widow of the coup leader, and her two sons.

Major Giroldi was buried in Panama City on Monday at a funeral attended only by his family and journalists. After the ceremony, relatives of the dead officer accused General Noriega's regime of summarily executing the rebel officers taken prisoner during the coup.

Concern is growing for 37 rebels arrested after the coup attempt who have not been seen since.

Mexico to end newsprint monopoly

MEXICO will end a government-controlled monopoly on the import and sale of inexpensive newsprint, President Carlos Salinas de Gortari, has said, AP-DJ reports from Monterrey.

The monopoly has been used in past years to retaliate against newspapers that failed to toe the government or ruling Institutional Revolutionary Party's line by making it difficult or expensive for dissidents to buy newsprint elsewhere.

Mr Salinas was greeted with a standing ovation and shouts of "bravo, bravo" when he told 450 members of the Inter-American Press Association meeting in this northern city that Productora e Importadora de Papel, (PIPSA), which is jointly owned by the government and long-established newspapers, would be sold.

"Allow me to announce that, once we sell PIPSA, we will allow free and total importation of newsprint, and thus avoid a monopoly by certain groups that could affect freedom of press expression."

PIPSA imported newsprint duty-free and distributed it among affiliated newspapers, virtually all of which were sympathetic to the Institutional Revolutionary Party.

Mr Salinas has been pressing for the monopoly to end as part of a campaign to cut government subsidies and encourage competition in the free market and greater press freedom.

Menem at last makes public a private intention

Dirty war pardon was decided a year ago, writes Gary Mead

THE contradiction between private aims and public pronouncements is something Argentines are beginning to get accustomed to. President Carlos Menem's decision to extend a presidential pardon to those involved in the so-called "dirty war" of the late 1970s, was one of the more blatant examples.

Indeed, early last Saturday Mr Menem said he had still not fixed a date for the amnesty: but not only had he already signed the four decrees the evening before, but at least a year ago he and his closest advisers had made it privately clear to Vatican diplomats in Buenos Aires that if he won the presidential election he would grant an amnesty.

Before and after his presidential election success in May, Mr Menem said he intended to let the normal judicial process take its natural course. Those already in prison for human rights offences committed during the "dirty war" would serve their time; those awaiting trial for similar horrors would be required to face the courts; army rebels who mutinied on three occasions between April 1987 and December 1988 would face punishment for their indiscipline.

Soon after winning the Peronist party primary in July 1988 Mr Menem went on a European tour which aides admitted was largely undertaken to improve his image abroad. Mr Menem was widely reported back in Buenos Aires as saying at his press conference in Paris that two laws passed under President Raúl Alfonsín – the Due Obedience and Final Stop laws – "put paid to the possibilities of re-opening the investigations concerning the disappeared in Argentina". According to official estimates almost 9,000 unresolved cases of disappeared people are still on the books; Mr Menem claims that 30,000 vanished.

At the Paris press conference Mr Menem said he "did not accept" the Due Obedience and Final Stop laws, which were passed under military pressure, and limited human rights' trials to top-ranking officers. But he added: "The trials which are currently going on will continue their course."

Some would argue that somewhere along the line Mr Menem has learnt Mr Alfonsín's lesson, which is that the military's pressure is the only one that counts in Argentina. He just could not come to accept it enough to stop saying he was against an amnesty.

Pressure there has been. As recently as the end of last month General Isidro Caceres, chosen as army chief of staff by President Menem, took the unusual step of dining with half a dozen Argentine journalists. He informed them that the President's delay in announcing the amnesty could not drag on beyond October 13 without grave consequences.

On October 13, (retired) General Santiago Riveros, former head of Argentina's largest army base, Campo de Mayo (site of two rebellions since April 1987), was due to face a court on charges relating to 50 murder and torture cases.

The most best-known figures to be freed are ex-president General Leopoldo Galtieri, who along with his fellow junta members Admiral Jorge Anaya and Brigadier Basilio Lami Dozo led the Argentine invasion of the Falkland Islands.

They are joined by 39 other high-ranking army and navy officers (most of them retired), 64 known guerrillas (the vast majority in exile), and 174 (predominantly army) dissidents from the armed forces, the most famous being Colonel Mohamed Ali Seineldin and Lieutenant Colonel Aldo Rico, who led armed rebellions under ex-President Alfonsín's administration, precisely to press the civilian government into conceding a blanket amnesty of the sort now granted by President Menem.

Colonel Seineldin served four years in Panama between 1984 and 1988, two of them as "military adviser" to General Manuel Noriega.

Argentina's most famous prisoner, former Montonero guerrilla leader Mario Firmenich, is for the moment to remain in jail, along with seven military and police leaders already sentenced for their crimes during the "dirty war". But they too are likely to be freed before the end of this year, according to what President Menem said on Saturday.

In neighbouring Uruguay in April the population voted to keep a general amnesty in place for those accused of human rights violations during Uruguay's 1970s dictatorship and the issue has died away.

Menem: heard the click of the pistol to his head

Mr Menem could have been confident of winning such a pro-amnesty vote in Argentina. As it is, the popular mood has possibly been satisfied, but the substantial minority against a general pardon has been given ammunition for future complaint. And the military rebels will undoubtably be drinking deep to what they, with some justification, will regard as a vindication of the policy of taking force into their own hands.

Neither Mr Alfonsín nor Mr Menem have fully scotched the military threat in Argentina; both have shown themselves willing to accept that the pistol placed against the heads nf their democratically-elected civilian governments by a minority of right-wing officers contains real bullets.

It could be argued that Mr Menem has less excuse for quietly forgiving murders of the past than did Mr Alfonsín. Not only did more Peronists die at the hands of the dictatorship (according to Mr Menem), but he commands much wider support than did Mr Alfonsín at the end of his term.

Glass plant row could hit Fiat's Spanish deal

By John Wyles in Rome and Peter Bruce in Madrid

AN on-off plan by an Italian state-owned company to build a float glass plant in the northern Spanish port city of El Ferrol is threatening to sour relations between Rome and Madrid, embarrass the Spanish Socialist Party's general election campaign, and possibly damage the Fiat Group's chances of acquiring Spain's heavy vehicles producer, Enasa.

These are the international ramifications of July's decision by Efim, the smallest of Italy's state industrial holding companies, to shelve the project on the grounds that it would be uneconomic.

The Efim subsidiary, Societa Italiana Vetro (SIV), decided to build the plant last October after hard lobbying by the Spanish authorities in Madrid and Galicia, who were keen to attract new investment to Ferrol, badly hit by the decline of shipbuilding and other traditional industries.

Madrid offered to put up Ptas 9.4bn of the then estimated cost of the plant – Ptas 16bn (£175bn). In addition, the Galician government agreed to contribute Ptas 350m towards retraining the 400-odd workers who would be employed there.

The project was conceived as an important pillar in SIV's ambitious expansion plan which has seen its turnover nearly triple from L300bn to L800bn since 1985.

A plant supplying glass to the car industry was opened at Sagunto at the start of last year and the new plant would add 150,000 tonnes a year to the Italian company's float glass capacity.

Problems arose when SIV inspected the terrain earmarked for the new plant. The company's engineers judged construction costs at about L218bn. Efim's executive committee, concerned at SIV's declining profits from L40bn in 1987 to L20bn last year, decided in July that the investment should not go ahead because it would be uneconomic.

The company's chairman, Mr Francesco Landeschi, who had enthused about the plant at last year's signing ceremony in Madrid, resigned shortly afterwards for health reasons.

Telephone and letter traffic between Madrid and Rome intensified. Spain's prime minister Felipe Gonzales is said to have expressed his concern to Mr Bettino Craxi, the leader of the Italian Socialist Party. Mr Gianni De Michelis, Italy's Socialist foreign minister, called the SIV management into the Foreign Ministry last month to explain.

At the end of last month, Efim's executive committee gave only a little ground, requesting SIV to produce fresh proposals for a float glass plant "or other valid investments" to be located in Spain. Publicly, no deadline has been set for the production of a new plan, but it seems every effort is being made to produce a decision before the Spanish election on October 29.

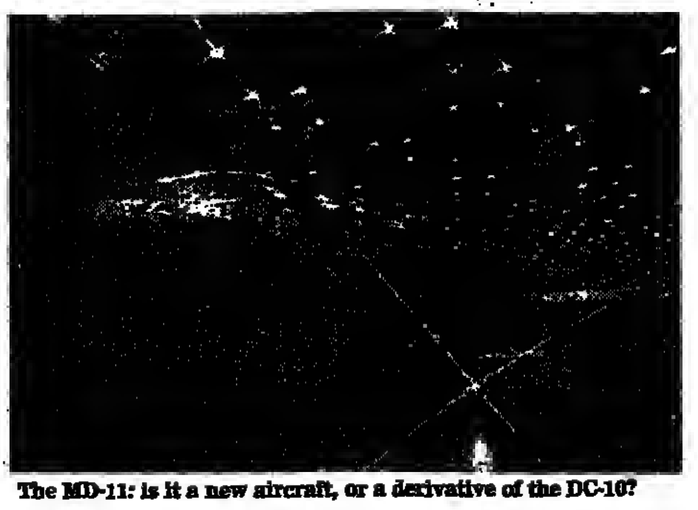
Mr Claudio Aranzadi, Spain's Industry Minister, said last week that there was no justification for SIV's arguments about "excessive cost". "It is difficult to imagine that a float glass plant receiving a subsidy of 58 per cent of the total investment cannot be profitable," he said. "I have said as much to my opposite number, the Industry Minister in Italy, and to SIV's board."

SIV challenges the assertion that the subsidy is worth 58 per cent, arguing that a proportion of the aid has to be included and taxed in future profits. But the company refuses to reveal its detailed costings and the bases for concluding that the plant would be uneconomic. No one appears yet to have broached the subject of a different, more suitable site, which could restore the original estimates of cost and profitability.

The MD-11's complex flight path to airworthiness

McDonnell Douglas is in a dilemma over the certification of its wide-body tri-jet, writes Paul Betts

MCDONNELL DOUGLAS is facing a delicate dilemma over the certification of its new wide-body 300-seat passenger tri-jet, the MD-11, which will replace the DC-10 and is scheduled to make its overdue flight debut in December.



The MD-11: is it a new aircraft, or a derivative of the DC-10?

On the surface at least, certification of a new jet airliner may appear to be a relatively routine, albeit complex and time consuming, operation, a bit like applying for planning permission for a big development project. But the different airworthiness standards for new or derivative jets imposed by the US Federal Aviation Authority (FAA) and those of European civil aviation organisations have turned certification into a headache for commercial aircraft manufacturers and a source of transatlantic trade friction.

The immediate question for McDonnell Douglas is whether to ask the FAA to certify its new long-range aircraft as a derivative of the DC-10 or apply for a new prodnct licence. Senior company officials say their preference is to opt for new aircraft certification for the MD-11. But they also admit that the decision, which must be taken before December, will be "a close call".

New aircraft certification has attractions for McDonnell Douglas, not least the psychological advantage of clearly distinguishing the new three-engine jet from the DC-10 and its chequered image. It is also likely to make certification of the aircraft by the European aviation authorities mnch smoother and avoid embarrassing last-minute problems like those Boeing faced last summer with its new 747-400 jumbo.

Boeing is being forced by the European airworthiness authorities to carry out modifications on the 747-400, which was certified by the FAA as a derivative. McDonnell Douglas could face similar problems if the aircraft was certified as a derivative in the US, especially since the European authorities have already said they considered the MD-11 as a "considerably updated version of the DC-10".

However, the new aircraft certification procedures could take longer than those for a derivative, risking a further delay in the MD-11 programme in which first customer deliveries are due to start at the end of next year.

Officials say the overall programme is about five to six months behind schedule and the company is trying to accelerate the production rate to be back on its contract schedule with airlines by 1993. This will involve increasing shifts and reducing final assembly cycle times to boost annual output from 50 to about 62 aircraft to meet the company's growing MD-11 order book, currently totalling 315 aircraft including 117 on firm order from 29 different countries.

McDonnell Douglas does not expect the new aircraft certification programme to take longer than derivative certification. Should it take longer, however, company executives acknowledge they will have to weigh up carefully the options. Any additional delay would inevitably upset airline customers but also narrow the gap between first deliveries of the MD-11 and its Airbus A-340 rival due to make its flight debut in summer 1991 and to enter service in September 1992.

Apart from the time factor, new aircraft certification could also give McDonnell Douglas, which plans to launch a stretch and an advanced stretch version of the MD-11 just 4ft shorter than the Boeing 747-400, a competitive handicap compared with new Boeing derivative models in the US because of the so-called "two second" rule contained in amendment 42 of the federal airworthiness regulations.

Under this rule, for new aircraft pilots are required to have two seconds, instead of the one required for derivative aircraft, to make up their minds before deciding whether to take-off or abort take-off. One second can make a big difference in the economics of an airline because it reduces the payroll and performance at take-off.

"For the MD-11 you are talking about 700ft-800ft in additional runway and about 10,000lb of weight," explained a McDonnell Douglas official.

McDonnell Douglas is arguing that the FAA should modify its rules to set a common standard on this issue. The European Airbus consortium claims new versions of the Boeing 737 certified as derivatives have had an unfair advantage over the new Airbus A320 150-seat twin-engine aircraft in the American market.

"We are not playing on a level playing field. All aircraft should have the same stringent certification requirements," said a senior Airbus official in Toulouse. In turn, Boeing has made no secret of its suspicion that the problems over European certification of its new 747-400 jumbo last summer were in part a ploy to make life difficult for the world's largest commercial aircraft manufacturer at a time when the US has continued to campaign against state subsidies to Airbus.

For its part, McDonnell Douglas, while siding with Boeing on the Airbus subsidy dispute, appears to agree with the European consortium on the need to streamline airworthiness standards in the US.

McDonnell Douglas is now looking for joint venture risk-sharing partners for its advanced stretch MD-11 programme, which will involve the development of a new wing and cost between $1.5bn and $2bn compared with the $500m-$750m development costs for the MD-11. It is talking to a number of potential Asian and European partners, but not with Airbus.

However, the most encouraging signs appear to be coming from Lockheed, the Californian group which has opted out of the commercial aircraft manufacturing business but is keen to become a subcontractor for other commercial aircraft makers. "There is a dialogue with Lockheed and something could happen there," confirmed a senior McDonnell Douglas executive.

McDonnell Douglas and Boeing have won combined orders for 26 aircraft worth about $3.6bn from Taiwan's Evergreen Airways, Paul Betts reports from Paris.

The Boeing orders include four firm orders and four options for the new Boeing 747-400 which will enable the new airline to fly non-stop to the US West Coast or Europe.

The airline, formed last March, also placed a firm order for two extended-range Boeing 767-300s twin-engined aircraft and took options on two more. The McDonnell Douglas orders involve firm orders for six new wide-body MD-11 tri-jets and options on eight more.

Norway-US trade clashes grow

By Karen Fossli in Oslo

CONFRONTATION has been growing between Norway and the US over the 1988 Omnibus Trade Bill, which Norway claims lowers the threshold for US companies to voice complaints against foreign competitors.

US companies have been more active in challenging possible violations of the trading code under the General Agreement on Tariffs and Trade, and Norway has become embroiled in disputes ranging from shipbuilding to fishing, to agriculture.

Norway fears a move is afoot in the US to block the American navy's purchase of Norwegian-made Penguin air-to-sea missiles unless Oslo reconsiders a bid for electronic toll collection equipment said to have been promised to the US-based Amtech, but awarded to a Norwegian-West German joint venture.

Another dispute centres on a US threat to boycott imports of Norwegian fish unless Norway changes its whaling policy.

The Shipbuilders' Council of America has accused Norway of violating Gatt and OECD rules for shipbuilding and repair industry subsidies.

A further case centres on an air transport accord.

In another dispute, Den norske Veritas (DnV), the Norwegian ship classification society, has allegedly been forbidden to set up operations in the US.

EC TV rule to be taken to Gatt

By Nancy Dunne in Washington

MRS Carla Hills, US Trade Representative, yesterday said the US would take its complaint that a recently-approved EC Broadcast Directive is "blatantly protectionist", to the General Agreement on Tariffs and Trade.

Mrs Hills said the directive, which contains a non-binding provision urging majority European local content in programming, discriminates against US and other non-EC film goods.

US concern was heightened, she said, by "press reports that the EC is pledging hundreds of millions of extra dollars in subsidies to European producers and writers that could enable European productions to gain unfair advantage over non-subsidised, non-EC productions".

Meanwhile, a US Congressional delegation was in Brussels complaining about the directive. Members said they were told that the measure was a political commitment rather than a legal obligation.

The TV directive spells out conditions under which broadcasters in Europe will be able to transmit throughout the EC. US officials say it violates two Gatt articles – it gives preferential treatment to non-EC European countries, and could impose limits on US TV programmes which are not reciprocal.

The directive is to go into effect in most EC states in the next year. Until then, the US cannot go to Gatt to seek damages, but it can request formal consultations.

The surge in imports of American TV programmes has raised concern in Europe that its culture is being threatened. This, Mrs Hills said, was a "fallacious argument.

"We do not understand why Spanish culture is more protected by a film produced in Germany by 'Europeans' than by a Spanish film of Mexican origin, or why English culture is promoted more by a film produced in France by 'Europeans' than by a film of New Zealand origin."

The directive has also alarmed Mr Robert Mosbacher, US Commerce Secretary, who last week suggested that US support for the 1992 process is threatened by local content requirements in TV programming and other areas.

FT NORDIC CONFERENCE

Gorbachev 'could be out within two years'

By John Burton in Stockholm

MR Mikhail Gorbachev, the Soviet leader, will probably be ousted within the next two years and an authoritarian régime dedicated to economic reform assume power, a leading Soviet expert predicted at the Financial Times conference on Europe and the Nordic region, in Stockholm yesterday.

Dr Anders Aslund, director of the Institute of Soviet and East European Economics at the Stockholm School of Economics, outlined a scenario for the Soviet Union analogous to Chile under Gen Pinochet.

Perestroika could not succeed without deregulating prices, which would prove almost impossible due to widespread opposition. To promote economic reform, it was necessary to weaken the bureaucracy. The only means available was democratisation. Unless Mr Gorbachev made a leap soon to a market economy, he would be overthrown as conditions worsened. A likely successor would be Prime Minister Nikolai Ryzhkov.

Mr Gerhard Heiberg, chairman of Aker, the Norwegian industrial group, said Nordic companies had little alternative but to invest in EC countries as long as Norway, Sweden and Finland refused to join the EC. "But this will mean less investment at home, which will affect employment," he warned. Nordic companies were allying with each other to compete better ahead of 1992.

Mr Kai Hammerich, executive Vice-President at Saab-Scania, said tensions would grow between Nordic companies and governments over the EC. "Business is becoming more international-minded than politicians, who will have to respond more to decisions taken in Brussels over which they have no influence."

Sir Michael Butler, executive director of Hambros Bank, suggested Nordic companies might engage in hostile takeovers to establish an increased presence within the EC. Mr Anders Ljungh, executive vice-president, Svenska Handelsbanken, said another possibility was for Nordic companies to relocate HQs on the Continent, a course already pioneered by ASEA, Tetra Pak and IKEA.

Mr John Quitter, group director for merchant banking at Scandinavian Bank Group, predicted that Nordic companies might become interested in leverage buy-outs as one means of corporate acquisition in the EC.

UK NEWS

Water shares discounted to promote offer

By Clare Pearson

CUSTOMERS are to be offered £20 off a £250 investment in their local water and sewage businesses when the former authorities are floated on the stock market next month.

This 8 per cent discount is worth slightly more than comparable incentives offered to customers in previous privatisation issues. It reflects the Government's keenness to promote regional as well as popular share-ownership through the water industry offer.

Prospective shareholders will have to apply for a minimum of about £250 worth of shares it was also announced yesterday along with details of the share incentives. The exact investment floor will not be known until the issue price is set.

The cash discount is comparable to the vouchers, which can be offset against household bills, offered in earlier flotations for British Telecom and British Gas.

According to Dewe Rogerson, advisers to the flotation, bill vouchers offered in the Telecom issue were worth 6.9 per cent of the value of shares, and in the Gas offer 7.4 per cent.

Share-buying water customers must opt for either a £20 discount off every investment of about £250, up to a maximum (fully paid) investment of £3,750, spread between the second and third payment instalments, or one free share for every 10 they are allocated in the offer, up to a maximum investment of about £7,500 (fully paid) to be awarded after three years.

Non-customers are also eligible for bonus shares, but in the less favourable ratio of one-for-20.

Since there is no household limitation on eligibility, about 96 per cent of individuals in England and Wales qualify for the cash discount or bonus shares, as well as for preferential allocations. This is substantially more than under the British Gas share offer.

Investors will not qualify for these benefits if they fail to register their interest with The Water Share Information Office, before a cut-off date – as yet unannounced – in the early part of next month.

So far, more than 2.5m people have registered with the office. J. Henry Schroder Wagg, the merchant bank advising the Government, yesterday described as a "very pleasing response."

● Dr Jack Cunningham, Labour's Environment spokesman, said yesterday's announcement showed consumers would have to foot the bill for the flotation.

"The Government knows no limit to the amounts of taxpayers' money that can be frittered away in pursuit of its ideological mania to sell off the nation's water assets," he said.

Record fall in visitors to London

By David Churchill, Leisure Industries Correspondent

LONDON experienced its biggest fall for a decade in the number of tourists and business visitors coming to the capital last year according to figures released yesterday by the London Tourist Board.

The total number of visitors from the UK and overseas totalled 21.1m last year, down from a record 24.3m in 1987.

The previous biggest fall in the 1980s had been in 1983-84 when the numbers declined by 1.2m.

The main cause of the slump last year was a drop in the number of UK residents coming to London, from 15m in 1987 to just 12m in 1988.

The number of overseas visitors also dropped from 9.3m to 9.1m.

The reason for the slump in London visitors last year came as a surprise given the record year for incoming tourists to Britain in general.

Visitor spending also fell from £4.3bn in 1987 to £4.1bn. last year.

Mr Tom Webb, the LTB's managing director, said yesterday that "1987 was a peak year for domestic visitors to London and the 1998 figure is more in line with levels we've seen in previous years."

Spending habits of the plain Briton

By David Barchard

NEARLY TWO Britons in three are terrified at the thought of being left without £100 in the world, yet nearly a million people never carry cash.

Three quarters of the British say they are so indignant at the thought of having to pay an annual fee for credit cards that they would hand them back if asked to do so. This may be because nearly half the country claims to be worried about receiving higher than expected credit card bills, even though credit cards are less widely used than generally believed.

These are among the highlights of a regular survey of attitudes on personal finance in Britain, published for the first time today by Abbey National, the retail financial services group.

The average Briton carries around £19.20 in cash, says the survey. Only 1 per cent of the population carries £100 in cash and virtually no one carries more than £200.

Youngsters are particularly worried about being lured into debt by credit. The under 24s are also worried about being overdrawn by £100 on a sight account, a fear they share with those over 60.

Anxieties about large overdrafts are strongest in the North and the Midlands where more than a quarter of those polled say they are very worried by the possibility.

Most Britons, says the report, plan their finances fairly carefully, though they may make the occasional impulse purchase. Impulsive buying seems to be most common in the south.

Women are agreed by both sexes to be more careful with money than men, while childless couples are much stricter planners than those with children. Low income families (below £6,500 a year) are the most likely to plan spending.

Only 13 per cent of consumers never plan. However, 42 per cent leave their Christmas shopping to the last minute.

As for the services offered by banks, only a third of credit card users say they would use their cards less if they had a £100 cheque guarantee card. Three quarters of consumers think that it would be wrong to allow retailers to charge less for payment in cash than with a credit card – recommendation of the Monopolies and Mergers Commission report on credit cards.

Abbey National Current Interest Index available from Abbey National PLC Abbey House, Baker Street, London NW1 6XL

Project pull-out cuts UK warship options

By David White, Defence Correspondent

THE BRITISH government's search for an alternative warship partnership after its sudden withdrawal from a £12bn Nato frigate project has run into an unexpected hitch.

Last month's decision to abandon the eight-nation NFR 90 is understood to have been made by Mrs Margaret Thatcher, the Prime Minister, on Treasury advice, and to the surprise of industrial participants and Navy officials.

Britain's explanation to its Nato partners was that more time was needed to develop weapon systems for a common frigate than the proposed nine-year timetable.

At the time the Ministry of Defence, which also cited the "reduced prospects for achieving a common design," reaffirmed its commitment to collaboration as the best way of meeting its requirements.

By the turn of the century the Royal Navy wants 12 ships to replace its Type 42 destroyers for defence against missile and aircraft attack.

But developing and building its own ship would, industrialists believe, significantly add to the expected price tag of about £200m per vessel.

France and Italy have both since pulled out of the NFR 90. However, instead of the project collapsing completely, as Whitehall officials expected, the remaining five nations have over the past few days clubbed together to keep the venture alive, effectively narrowing the UK's options.

The US-led club, which includes Canada, West Germany, the Netherlands and Spain, broadly represents the nations backing the US-controlled bidder for the ship's anti-missile system, the Nato Anti-Air Warfare System (NAAWS).

NAAWS' competitor is a French-Italian-inspired project, the Family of Air Missiles (FAMS).

The UK now has the restricted option of joining forces with the French and/or the Italians in a joint design, but its needs for the weapon system are different from those of the other two countries.

The Royal Navy wants a "local area" system capable of defending nearby ships against air attack to replace the Sea Dart missiles deployed on Type 42s. The French and Italians, however, want the close-in "point defence" and long-range sides of the FAMS project.

Britain still has the option of participating in NAAWS, but it risks being the only participant not involved in a jointly designed hull.

A memorandum of understanding between the backers of the NAAWS system is expected to be signed in December.

The group of five has issued a letter of intent to provide Internationale-Schiffs-Studien, the Hamburg-based company in charge of project definition for the NFR 90, with a further DM10m (£3.3m) to continue its work up to Christmas.

The US led group requires 35 ships, with the US accounting for 18, compared with an expected 59 for the original eight-member consortium.

Scots solicitors lose monopoly

By James Buxton, Scottish Correspondent

SOLICITORS in Scotland have lost their battle to persuade the Government not to remove their monopoly on property conveyancing.

Mr Malcolm Rifkind, Scottish Secretary, said yesterday that he intends to allow financial institutions and professional bodies to carry out conveyancing work subject to a statutory code of conduct.

The removal of the monopoly is the most important change the Government is proposing for the Scottish legal system after consultations in the spring.

The Law Society of Scotland, the solicitors' organisation, angrily denounced Mr Rifkind for "following political dogma" and "riding on the English roller coaster of reform."

But Mr Rifkind stressed that his review of the Scottish legal profession was much less sweeping than the controversial exercise carried out by Lord Mackay, the Lord Chancellor, which led to proposals for radical changes.

The Government will introduce legislation to bring in the changes. Banks and building societies which certify to their regulatory authorities that they can comply with a statutory code of conduct will be allowed to operate as authorised practitioners in conveyancing.

Professional bodies will be given powers to authorise members to do conveyancing.

The Government also intends to allow solicitors the right of audience in the higher courts, subject to the approval of the Lord President of the Court of Session, the equivalent of the Lord Chief Justice in England and Wales.

The legal prohibition on solicitors forming partnerships with non-solicitors is also to be removed.

In Brief

Gasco faces £12m court order in Manx case

MORE THAN seven years after the collapse of the Savings and Investment Bank on the Isle of Man, the bank's liquidators were granted an order by a Manx court for nearly £12m against fugitive financier Mr Jim Raper's Gasco companies.

The run on the bank followed a declaration by Gasco that it intended to issue a £9m counter-claim against the bank, which was trying to reclaim a £4.5m loan to the company.

United action adjourned

THE COURT action by Mr Martin Edwards, Manchester United's chairman, against Mr Michael Knighton, the developer seeking to buy the club, was adjourned as controversy continued over the deal.

N Sea safety moves

THE Government issued two discussion papers for improving safety in North Sea oil installations intended to bring about a formal assessment of the safety of platforms while they are being designed and to improve fire protection measures.

Car dealers earnings

TOP car dealers are now earning up to £95,000 a year, although the average is much lower, according to the annual survey of motor trade pay levels.

Atlantic pager launched

BRITISH Telecom is to launch a Transatlantic paging service next month, which will allow customers to be connected anywhere within the UK or the US using the same pager.

Lowndes adds to board

LOWNDES Queensway, the carpet and furniture retailer, expected to report a £17m half-yearly loss has appointed two non-executive directors to strengthen its board.

UK gas prices

BRITAIN remains the most expensive country for industrial users of gas despite overall cuts in British Gas prices, according to latest figures.

Code urged for 'wild-cat' action

Fowler signals delay in curb on service strikes

By Lisa Wood and John Gapper

THE Government has delayed plans to introduce curbs on strikes in essential services. A discussion paper proposing to limit unofficial industrial action by forcing onions to repudiate it will instead be published today.

The plan to curb wildcat strikes - such as those which bedevilled London Underground this year - was announced et the Conservative Party conference yesterday by Mr Norman Fowler, Employment Secretary.

But he said after his speech that be had not yet formed proposals for curbing strikes in essential services, either by an outright ban on indnstrial action or by the use of "cooling off" periods before action.

Mr Fowler's plans for curbing what he called "the weapon of the militant, the tool of the wrecker," are likely to based on forcing unions either to repudiate unofficial action or adopt it and hold a strike ballot.

Proposals on wildcat strikes are likely to be included in a new employment bill which may be publish before the end of the year and will incorporate other measures.

Mr Fowler visited the United States and met labour attaches from European countries in considering curbs on strikes in essential services. Bnt he is believed to bave concluded that the practical difficulties in were too great.

Mr Fowler was cheered by the Conservative conference when he said: "The wildcat strike disrupts the life of the community. The wild-cat strike has damaged British industry for far too long." It is thought the green paper will propose that if a union fails either to repudiate a shop steward who calls an unofficial strike, or take steps to make it official, it will lose its immunities in civil law.

Mr Fowler said secondary action such as that threatened by the Transport and General Workers Union against Ford's plans to build a new factory in Dundee under a single-union deal would be illegal.

The unenviable task facing Mr Lawson

Peter Norman assesses the Chancellor of the Exchequer's difficult economic dilemma

Mr Nigel Lawson, Chancellor of tbe Exchequer, is finding out thet words have a nasty way of tying people down.

He is facing the unenviable task of persuading financial markets that the Government is still running a tight monetary policy in spite of Monday's sharp 5½ pfennig fall in the pound through the DM3 barrier and a further 2 pfennig drop yesterday.

As sterling yesterday fluctuated around the DM2.95 level, which was generally regarded as an important resistance point, the markets were still trying to assess what, if any, significance they should attached to Mr Lawson's statement of two weeks ago in Washington that "a firm exchange rate remains an essential plank" of the Government's counter-inflation policy.

Unsettling markets further were continued sospicions – officially denied – of differences over policy between Mr Lawson and Sir Alan Walters, the Prime Minister's economic adviser.

Since Mr Lawson made his remarks about the exchange rate on September 27, the pound has dropped by an average of 2.5 per cent.

Two weeks ago, after the financial markets had reacted to August's unexpectedly high current account deficit of £2bn, by driving sterling lower, the pound closed in London et DM3.035 and $1.6135 with the Bank of England's exchange rate index at 91.3 of its 1985 value.

Yesterday, after a day of very nervous trading which saw the Bank intervening to snpport the pound, sterling closed in London at DM2.955 and $1.558 with the index at 89, its low for the day.

However, despite this fall, the official line from both the Treasury and the Bank of England was that Britain was still running a tight money policy and had not let the exchange rate go.

Treasury officials pointed out that last week's increase in bank base rates to 15 per cent from 14 per cent had resulted in a net tightening of the monetary stance in spite of the depreciation of the pound.

Real interest rates, when deflated for the present retail price index, are an uncomfortably high 7.7 per cent. Compared with the Treasury's preferred measure of underlying inflation, which excludes the effects of mortgage interest rates on the retail price index, real interest rates in Britain are a usurious 9 per cent.

Although ths Treasnry denies any mechanistic link between base rate changes and currency movements, officials say that a one percentage point upward movement in base rates should offset a sterling depreciation of as much as 4 per cent as measured by the trade-weighted index. On this basis, monetary policy was tighter yesterday than when Mr Lawson spoke in Washington.

There are very sound reasons why at present the Government does not want sterling to depreciate further.

A lower currency carries the risk of increased prices for imported goods. Currency depreciation is seen as especially dangerous in the present circumstances of still high capacity utilisation in industry. It threatens to ease the competitive pressure of foreign imports on British manufacturers and therefore sap their resolve to withstand inflationary pay claims in the forthcoming wage round.

For that reason, the Bank of England's intervention yesterday was well signalled and, according to one official, relatively aggressive. The Bank was selling dollars and European Currency Units.

Intervention in the latter was intended to tell the markets that the authorities were not ignoring sterling's exchange rate against the D-Mark even though it had fallen through the psychologically-important DM3 barrier the previous day.

But there is no doubt that the markets would be easier to convince had there not been strong suspicions of renewed differences between Mr Lawson and Sir Alan Walters.

It was his appearance at a City lunch at the beginning of last week that appears to have sparked the reports of dissent. According to City analysts, Sir Alan opined that the then base rate level of 14 per cent was slowing the economy.

This apparently uncontroversial sentiment acquired an explosive character because sterling then came under pressure on the foreign exchange markets. The Bank of England intervened forcefully in its defence until Thursday afternoon, when it raised base rates immediately after the Bundesbank increased its discount and lombard rates by one percentage point to 6 per cent and 8 per cent respectively.

Throughout his career, Sir Alan has been consistent in believing that most of the problems with modern economies are created by governments interfering in markets. Whether or not Sir Alan objected to the large-scale of Bank of England intervention, last week, is now immaterial.

The City, knowing that Sir Alan thought policy had been tightened enough before the base rate rise, deduced that he, and by extension the Prime Minister, would have been angered on two counts by last week's events.

He would have been violently opposed to the deployment of currency reserves in the pound's defence – arguing that with the economy slowing there would be no inflationary pressure from a depreciation of sterling. According to the City's judgment, Sir Alan would also have opposed the base rate rise.

This potentially explosive speculation emerged in the weekend press as a rift between Mr Lawson and Sir Alan. In spite of firm Treasury denials, it has put the markets on tha alert for further signs of dissonance, should sterling fall nearer DM2.9.

With the pound still groggy and uncertainty surrounding relations between numbers 10 and 11 Downing Street, the markets are looking to Mr Lawson for strong words to bolster the credibility of his policy.

His first opportunity is tomorrow at the Conservative Party Conference. A second chance come on October 19 when he gives his annual Mansion House Speech.

Unless the Government can restore confidence, analysts fear that it may be forced into a further rise in base rates that would tip an already slowing economy into recession.

The good news and the bad news at ICI

By Peter Marsh

MANAGERS at Imperial Chemical Industries, Britain's biggest manufacturing company, have been watching the currency fluctuations of the past two days with mixed feelings.

While the pound falling through the psychologically important DM3 barrier has been viewed with concern by the stock market and in some sections of industry, for ICI the movement is beneficial in the short term.

This is on the grounds that ICI, like most European chemicals companies, sells its products in Western Europe at prices expressed in D-Marks.

Hence a strengthening of the German currency unit at the expense of sterling makes ICI more competitive in continental Europe - which accounts for about a quarter of ICI's £13bn annual sales.

Currency movements of this kind are highly important for ICI, one of Britain's biggest exporters. They have become still more so over the past decade as the UK market has become progressively less important for the company.

Britain now accounts for only about a quarter of ICI's sales, as against 35 per cent in 1983. About half of ICI's UK production, worth some £6bn a year, is sold overseas.

ICI stands to gain in another way from a fall in the value of sterling against the D-Mark. This concerns the effect of such a movement on profit figures. For every 100 pfennig increase in the value of the D-Mark against the pound, ICI's annual profit rises by some £23m, as a result of currency translations.

Then why is the company not smiling broadly at this week's economic news? One obvious answer is that the rise in interest rates in Britain and other countries like West Germany promise to reduce demand for many of ICI's products, which are bought mainly by industrial customers.

The higher rates may also, by making ICI's own borrowing more expensive, reduce ICI's capability to fund new plant-building schemes and other capital-intensive projects, such as those linked to environmental improvements. That may well harm the company's competitive position in the long run.

Another issue which could cause ICI problems is the degree to which the company can increase production at its UK plants to gear this to export markets rather than domestic consumption.

ICI said yesterday it forsaw no immediate problems in increasing UK-based production to meet any surge in demand from overseas resulting from currency factors. But the complexity of the distribution channels by which many chemicals reach their customers would, so industry onookers believe, make it extremely difficult for ICI to switch over in a big way from home sales to exports.

Whatever the thoughts of ICI managers on the subject of currencies, the London stock market seemed to be in no doubt that the fluctuations, at least from a psychological viewpoint, are bad news for the company. ICI shares closed 19p down yesterday at 1156p, following a 22p fall on Monday.

Stocks see fourth bad trading day

By Daniel Green

LONDON SHARES fell for the fourth trading session in a row, taking the decline since Thursday's interest rates rise to 4 per cent, measured by the FTSE 100 index.

The last two hours of trade yesterday saw the index plunged more than 40 points. Early gains were already looking fragile after sterling's weakness on foreign exchange markets.

The floor fell from beneath shares in the last two hours of trade, which saw the index plunge more than 40 points. Early gains were already looking fragile after sterling's weakness on foreign exchange markets.

An indication of the market's nervousness was that the late slide was triggered by the pessimistic word of a single man, albeit one who is widely credited with having forecast the crash of 1987.

Mr Peter Thompson, a consultant with securities house Barclays de Zoete Wedd, said, in a document due to be published this morning, that the FTSE index could be at 2,100 by the end of the month and 1,800 next year. It closed yesterday at 2,218.8, a fall on the day of 28.2.

Mr Thompson, a retired former chief of equity strategy at BZW, explained that sentiment had changed. "The last trade figures made it clear that the medium-term outlook could not be anything other than depressing for equities. With the Conservatives seeming to have lost their way, people don't treat good news well and sell on bad news.

BZW said that Mr Thompsons views were his, and "more extreme" than its own.

Share dealers played down the fall. "Mindless," said one, "The end of the world is not nigh." said another.

Heseltine urges early membership of EMS

By Philip Stephens, Political Editor

MR Michael Heseltine, the former defence secretary who resigned from Cabinet over the Westland affair in 1986, yesterday set out his prescription for the economy's present ills with a call for early full membership of the European Monetary System, more government help for manufacturing, and more spending on training and education.

In a speech to the Conservative party's annual conference which was seen conference as underlining his bid for the future leadership of the party, Mr Heseltine urged the Government to acknowledge that Britain faced a "serious balance of payments problem."

He said that it should demonstrate its commitment to curbing inflation by taking sterling into the EMS exchange rate mechanism while seeking to turn round the trade deficit by playing a more active and strategic role in nurturing a revival of Britain's manufacturing industry.

Mr Heseltine, who has been identified in recent opinion polls as the most popular potential successor to Mrs Margaret Thatcher as leader of the Conservatives, backed the decision last week by Mr Nigel Lawson, the Chancellor of the Exchequer, to raise interest rates to defend the pound.

His speech to a meeting of the Tory Reform Group went on, however, to contradict flatly Mr Lawson's insistence that Britain's trade deficit – expectsd to reach between £18bn and £20bn this year – does not pose a major threat to the economy.

"We have a serious balance of payments problem ... I beg our party not to argue that a deficit on overseas trade is of incidental importance, self-correcting, easily financed. I do not believe a word of it."

Britain was not paying its way in the world, he said. He coupled that warning with a firm demand that the Government acted to restore confidence on financial markets by taking sterling into the EMS. "A formal relationship with the D-Mark would signal the long-term determination to accept the discipline that our counter-inflationary policy needs," he said.

If the Government took a decision to join now it could accept a lower parity for the pound because it would be coupled with that discipline." Mr Heseltine emphasised his concern that the Government was not doing enough to help industry to compete in world markets.

That assistance should not come in the form of intervention or controls, but should focus instead on helping companies to boost research and development, providing better training and promoting long-term investment.

MANAGEMENT

Find out how many trains ran on time

Michael Skapinker on performance measurement

Counting the number of patients that occupy a hospital bed in e single year might tell doctors how efficiently they are using their heds. It will not tell them whetber their patients are getting any healthier.

In many areas of the public sector there is no bottom line of profit and loss. Public sector employees often say that even if there were, their job is to provide a service, not make a profit. For example, the cost of educating a popil in one area of the country compared with anotber is not a useful piece of information. It is far more important to know how well-educated and well-rounded those pupils turn out to be.

A new booklet argues, bowever, that not only is public sector performance measurement possible, it *is also vital*. Written by Peter Jackson, director of the Public Sector Economics Research Centre at the University of Leicester, and Bob Palmer of Price Waterhouse, the accountants and management *consultants, the* booklet says that without performance measurement, "public sector managers are in danger of allocating resources in the dark.

"They will have little or no *idea about how* their activities are contributing to economy, efficiency or effectiveness; they will not know when diagnostic investigations are necessary; how tbeir performance compares with that of similar *departments* elsewhere in the public sector or, indeed, how tbeir own performance has changed over time."

In any event, it is not just public sector organisations which do not have a bottom line of profit and loss. Many departments in private sector companies do not have one either – research and development units, for example.

Whether *in the public* or the private sector, managers can measure their department or organisation's performance, Jackson and Palmer say. To do so, however, they first have to establish the right climate.

"Performance measures cannot be introduced in a vacuum," they say. "An anthoritarian, top down, confrontational approach may be too threatening to achieve the best results from performance measurement. In many circumstances a participatory approacb offers the best chance of success, particularly where there is a relatively small gulf hetween managed and managers."

If the right climate exists, *managers* need to decide what activities to measure and what the objectives of those activities are. Sometimes objectives are so vaguely worded that *effective performance measurement* is not possible.

One organisation, for example, set itself the following objective: "To provide funds for the construction of safe and sanitary houses for families in the lower income groups in the districts." To measure the organisation's performance, a large numher of questions would need to he answered. *What* do we *mean* by safe and sanitary? What do we mean hy lower income? How mucb money does the organisation have? How many houses does it propose to huild?

Once they have decided on their primary *objective*, managers must set their organisation's complementary objectives too. In addition to knowing how many patients use *a bed in a year*, we also need to know how many had to be re-admitted to hospital. As well as knowing how many passengers British Rail carried, we should also find out how many of those passengers had a seat and how many trains ran on time.

Performance also has to be measured against something else. This could be the previous performance of the same organisation. The organisation could also be compared with similar hodies elsewhere. "In all these *comparisons there is* a need to match like with like, otherwise the comparison will lack credihility," the booklet says. "There would be little point in comparing, for example, the cost per person of social services in Southwark and Milton Keynes."

There is another way of measuring the performance of public sector organisations, Jackson and Palmer say. *Ask the* users.

First Steps in Measuring Performance in the Public Sector, from Public Finance Foundation, 3 Robert Street, London WC2N 6BH. £10.

Waring & Gillow

Furnished with the facts

An upbeat 1986 annual report was followed by a very different outlook in 1987. David Waller delves into the circumstances which caused the institutions to demand changes

Back in the autumn of 1986, a group of hapless institntional investors stumped up £44.7m for an 89 per cent stake in a private furniture company called Waring & Gillow. They did so with the confident expectation that tbey conld realise at least some of their investment when the company floated on the stock market the *next Spring*.

Unfortunately for those investors, it is only now, three years later, that the fund managers are in a position to get any money *back. In the next* few weeks, they will be meeting to decide whether to take the cash from the sale earlier this year of a major part of the business – or to back new expansion plans. Whatever their decision, there will be plenty of time to reflect on a true business catastrophe.

The scale of the reversal at the company, and the speed *with which it took place*, is neatly illustrated by contrasting the annual reports for 1986 and 1987. The former was extremely optimistic in tone, while the latter painted a picture of unadulterated gloom.

"The year was one of significant progress," the chairman reported at the end of 1986, "which is expected to continue into the future." A year later, *reflecting on* 1987, *a new chairman* wrote: "It was a particularly difficult year, which is reflected in results which are significantly below expectations and extremely disappointing."

The figures *speak for* themselves. In the year to September 1986, the company made a pre-tax profit of £4.1m. A month later, the institutions came aboard, wooed by a prospectus which predicted pre-tax *profits of £6.4m over 1986-87* and the promise of a flotation.

In fact, profits slumped spectacularly to a net loss of £15.2m (a loss of £7.2m at the pre-tax level) for the year to September 1987. In May 1988 – when a new management team was appointed at the insistence of the institutions – snpplier accounts were overdne and gearing stood at 300 per cent. Gillow, a company with roots going back to the 18th century, was on the verge of corporate extinction.

What went wrong goes back to the fateful day in May 1985 when Gillow, for decades a publicly quoted company, went private. A £25m bid from a management consortium led by two well-known retailing personalities and backed by Albion Trust, the corporate finance subsidiary of S&W Berisford, the sugar group, secured the company's fate.

Cyril Spencer – a former chairman of the Burton retailing group – and Ashley Meyer, the former managing *director of Debenham's furniture* business, came on to the Gillow board as non-executive chairman and chief executive respectively, with a two-fold strategy.

They would improve the company's profitability by cutting costs, tightening up on stock levels and introdncing management reporting systems and controls. At the same time, *they would re-align the company's* position in the volume furnishing market. The stores would be refurbished and a new image introduced – all in an effort to appeal to new customers in the 25-40 age bracket; traditionally, the stores had served the upper age bands.


Cyril Spencer (left) and Dennis Cassidy

A sensible strategy, perhaps, but eventually almost everything went wrong in its execution. At first, the formula worked, as reflected in a £6.7m turnround in 1985-86 over the losses of £2.6m made in 1984-85. The October 1986 placing – sponsored by Rothschilds and with an accountants' report by *Price Waterhouse* – valued *Gillow* at twice what Albion Trust and the management team had paid for it the previous year.

Confidence was still high in January 1987, when the company *went on the acquisition* trail and paid £7.3m to buy the Wades Gronp, a chain of 43 department stores serving broadly the same market as Gillow.

But when *the* strategy was *really* put to the *test in* a deteriorating market, it fell apart. One of the factors was clearly beyond management's control; sales growth was hit by public fears about inflammable upholstery. By 1987, some six deaths a week were caused by the fumes given off by burning polyurethane *foam* used in furniture upholstery. Public outcry reached a climax in that year, driving down furniture sales to 5.2 per cent of the total retail spend against 5.7 per cent in 1980. In 1988, the government *responded by outlawing* these foam-fillings.

External pressures are one thing – internal incompetence is another. A *computer disaster left management* having to take *decisions* on the *basis* of unreliable financial information.

The true extent of the position was obscured by the acquisition of Wades. With this company came a computer system to *deal with sales, stock* levels, costs and the like. Gillow already had two of its own systems in operation and a decision was taken to put all three together in a new system. The result was chaos; the *specification was changed* so frequently that a system was never devised.

The project was ultimately cancelled, leading to a £2m write-off. Moreover, these problems with the company *meant that Gillow was unable* to produce reliable financial information for the whole of 1987. Backers of the company also found it difficult to keep track of what was going on.

The 1987 accounts, which did not emerge until mid-1988, *also* revealed that a refurbishment programme early in the year – designed to take the stores up-*market* – cost £7m, but had no positive effect. In fact, the disruption it caused dragged sales down over 1987, and "worse still, the subsequent sales lev*els did* not recover those *lost* sales. Given the pressure felt hy all furniture retailers, there was a constant round of discount sales which had a depressing effect on both sales *and margins achieved*."

Overall, the 1987 accounts continned, aales were "extremely disappointing". They went up from £99m to £113m, a paltry increase given that the Wades acquisition *increased* the group's selling space by a third.

American operations added to the setback. Given the problems in the UK, it is understandable that management's attention was distracted from a *disappointing* performance at the company's chain of nine furnishing stores in the US.

According to the 1987 accounts, "it proved impractical to devote adeqnate resource to achieving a turnaround within an acceptable time-scale." The US shops were either sold at a loss or closed down, giving rise to an extraordinary charge of £5.2m in the 1987 figures.

The distance between the institutional shareholders and the company was reinforced by the fact that Gillow was technically a public company rather than a private one. Strict rules govern communications between public companies and their shareholders. All shareholders must be treated equally, which *meant* that Spencer was not allowed to ring up the big investors to give them the inside story.

But it was the big institutions, including the Pru and 3i, which eventually realised that something was amiss and acted to change the management. Philip Lovegrove, formerly a director of the Gartmore investment house, recalls that institutions soon became anxious about the lack of information. There was a meeting between the investors and the board in June 1987, at which a variety of performance targets was agreed.

"The alarm bells started ringing when by September it was apparent that these had not been met," Lovegrove recalls. "A rationalisation programme began almost immediately. The non-executive directors, with the full backing of the institutions, asked Mr Spencer to resign."

From September to January, Spencer stayed on, supervising a programme of property disposals to keep the company afloat. Lovegrove was acting chairman from January, when Spencer resigned, until April, when he was succeeded by Denis Cassidy, the former head of the BhS *retailing company* and deputy-chairman of Storehouse. In the same month, Simon Bee, a former director of the Sketchley cleaning group, replaced Ashley Meyer as chief executive.

"It was *only then* that the full scale of the problems we'd inherited came to light," Cassidy recalls. "It was like doing an archaeological excavation bnt in this case we found plenty of old corpses and little in the way of gold coins."

Today, Spencer defends his record at *Gillow* and blames his departure on City short-termism.

"The stores we inherited hadn't had a penny spent on them for 50 years," he said recently. "The refurbishment programme was necessary *just* to take them into the twentieth century.

"The trading losses [which amounted to £3.4m for 1986] reflect the poor market conditions. As for the £2m computer write-off, the strategy was to take the pain there and then. When you bite the bullet you have to clench your teeth for a while.

"Institutional investors are not businessmen in this respect: they don't see the longer view. They are concerned about instant *returns* which don't always come. And in the event, the new management team has not made any fundamental changes to the strategy we pioneered."

Simon Bee concedes that the basic trading *strategy was not* altered. But, he argues, the *company's* finances were in such a sorry state that only dramatic action could save it from liquidation.

"Just look at the interest bill. The company paid £3.6m in interest for a year when *interest rates* were only 7½ per cent. In an era of higher rates, the interest burden would soon have become *unsustainable*.

"It was only as a result of institutional pressure that the previous board made the property disposals necessary to keep the company afloat. It was quite clear when we came aboard that some sort of radical action was needed to sort out the balance sheet. There was no evidence that the previous people had given any thought to that."

Bee and Cassidy's own efforts to contain the haemorrhage and offer the company a *future* have been swift and, so far, effective. In their first year they lopped the staff, put the computer project on hold, and made property disposals of £17m – all of which helped Gillow report a £200,000 operating profit for the year to September 1988.

A more radical move followed this year with the sale to Asda of two-thirds of the business, plus the Waring & Gillow and Maples brand names, for £29m. This left Gillow with 35 stores in the UK, four on the continent, an indeterminate future as a small furniture retailer – and £10m in the bank. Net assets doubled to £21m as a result.

Institutions now have to decide whether to take the £10m cash or allow it to be ploughed back into the business.

What lessons can be drawn from this affair? It shows that the legal framework of a public company is not best suited to a *buy-out vehicle in that it can* hinder the free flow of information between management and shareholders. It illustrates the importance of financial controls. It shows that big company ideas – on strategy, on acquisitions and on internal organisation – do not necessarily work when translated into a smaller company environment.

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SHARPER, TO PUT IT BLUNTLY.

FT LAW REPORTS

Reliance on accountant no excuse in VAT case

COMMISSIONERS OF CUSTOMS AND EXCISE v SALEVON LTD
COMMISSIONERS OF CUSTOMS AND EXCISE v HARRIS AND ANOTHER
Queen's Bench Division: Mr Justice Nolan: September 26 1989

A trader may have a reasonable excuse for failing to pay his Value Added Tax on time if, though the direct cause was insufficiency of funds, thet insufficiency was due to the wrongful act of another. But he is statutorily deprived of the defence of reasonable excuse for delayed registration if he relied on his accountant to register for him and the accountant failed to do so, giving him incorrect information as to his obligations.

Mr Justice Nolan so held when dismissing an appeal by the Commissioners of Customs and Excise from a Value Added Tax tribunal's decision that taxpayer, Salevon Ltd, was not liable to surcharge for failing to pay tax on time; and when allowing an appeal by the commissioners from the tribunal's decision that taxpayers, Mr and Mrs D Harris, should not be penalised for failing to register their business for VAT purposes by the required date.

Salevon case

HIS LORDSHIP said that traders registered for VAT were statutorily obliged to send the commissioners a return, and any tax due, within one month after the end of each eccounting period. A trader who persistently failed to comply with that requirement became liable to a default surcharge under section 19 of the Finance Act 1985.

Section 19(6)(b) provided that a person who satisfied the Commissioners or VAT tribunal that there was a "reasonable excuse" for his not having made his return and paid tax by the due date, was not liable to surcharge.

That was qualified by section 33(2)(a) which provided that "insufficiency of funds to pay any tax due is not a reasonable excuse".

Salevon defaulted in 1986 and 1987, and was subjected to surcharge. It invoked section 19(6)(b) and claimed it had a reasonable excuse.

That claim was rejected by the commissioners, but npheld on appeal by the tribunal.

The facts found by the chairman were that Mr Anthony, Salevon's managing director, had bought a controlling interest in the company in 1984. He was aware it owed trade creditors £80,000, but was not aware that it owed £24,000 VAT and other taxes.

The reason for his not knowing was that the former company secretary hed drawn cheques for sums due to tax authorities, but had not passed them on. He had shown them as having been paid. When Mr Anthony brought his controlling interest he had not bargained for the edditional £24,000.

He arranged with the tax authorities for payment by instalments, and by April 1987 the company had paid off the whole amount. It was left with serious cash flow problems, made worse by the fact that a number of its customers got into financial difficulties. It lost a further £20,000 through bad debts.

The cumulative effect was that the company got into arrears with its VAT.

The commissioners contended that the reason Salevon did not pay the tax was that it had insufficient funds. They said section 33(2)(e) applied, and that Salevon could not invoke the "reasonable excuse" defence.

The tribunal chairman, Judge Medd QC, said the real cause of the defaults was the former secretary's dishonest conduct, which resulted in a cash flow problem. He said the reason for failing to pay on time should be distinguished from the reason for saying the failure should be excused.

On the present appeal Mr Pleming for the commissioners argued that that approach robbed section 33(2)(a) of any effect.

The argument was not accepted.

Section 33(2)(a) made it plain that insufficiency of funds could not be regarded as a reasonable excuse. But it was unlikely that Parliament intended that a trader whose explanation for late or non-payment was that the wrongful act of another had deprived him of the means to pay, should be unable to plead reasonable excuse?

To say of such a trader that his excuse was insufficiency of funds appeared an incomplete and misleading description of the situation. It failed to distinguish between the reason, in the sense of direct cause, for non-payment, and the excuse for non-payment.

The commissioners and tribunal were well-qualified to distinguish between the trader who lacked the money to pay his tax by reason of culpable default, and the trader who lacked the money by reason of unforseeable misfortune.

Cases in which a trade with insufficient funds could successfully invoke the defence of "reasonable excuse" must be rare because, under the scheme of collection,the trader received from his customers the tax which he must subsequently pay over to the commissioners. He would be hard put to show a reasonable excuse for losing money destined for the exchequer, of which he was temporary custodian.

In the present case the initial shortfall of £24,000 was unforseeable and thus potentially acceptable as a reasonable excuse for non-payment of tax.

The further £20,000 lost by bad debts seemed to stand in a different category. The risk of bad debts was an incident of most types of business activity. However, it was clear from the chairman's judgment that he would not have decided the case as he did if he had thought the cash deficiency was due to the normal hazards of trade. It would not be right to depart from his findings of fact.

Section 33(2)(a) did no more than make it clear thet an insufficiency of funds by itself was not a reasonable excuse for non-payment.

The appeal was dismissed.

Harris case

HIS LORDSHIP said that Mr and Mrs Harris were subject to penalties under section 15 of the Finance Act 1985, for failing to register their business for VAT.

They should have registered on March 10 1987, but did not do so until March 21 1988. Penalties totalling £1,747 were payable unless they could prove they had a reasonable excuse.

Section 33(2)(b) of the Act provided that "reliance on... any other person to perform any task" was not a reasonable excuse.

Mr and Mrs Harris had returned to the UK in October 1986 after six years in the Middle East. Before beginning their business as pnblicans they engaged a firm of accountants to advise them and handle their tax affairs. They dealt with a Mr Clements.

They began trading in March 1987. During the first year of trading they phoned Mr Clements on three or four occasions and asked him for their VAT registration number. He replied that they were not liable for VAT in the first three quarters.

In early 1988 they realised that Mr Clements had let them down, and effected the registration themselves.

The tribunal found that Mr and Mrs Harris had complied with the book-keeping advice Mr Clements had given them, and had regularly sent him the materials needed for completion of their tax returns. They had relied on him to effect their registration when it was required.

The chairman said the reason for the delay was that Mr Clements told Mr Harris wrongly that he was not liable for VAT on the first three quarters. It was not simply that he had "relied" on Mr Clements to register the business. Therefore Mr and Mrs Harris did not fall within section 33(2)(b).

The court disagreed.

Mr and Mrs Harris were legally obliged to register their business in March 1987.

For the commissioners: Nigel Pleming (solicitor, HM Customs & Excise)

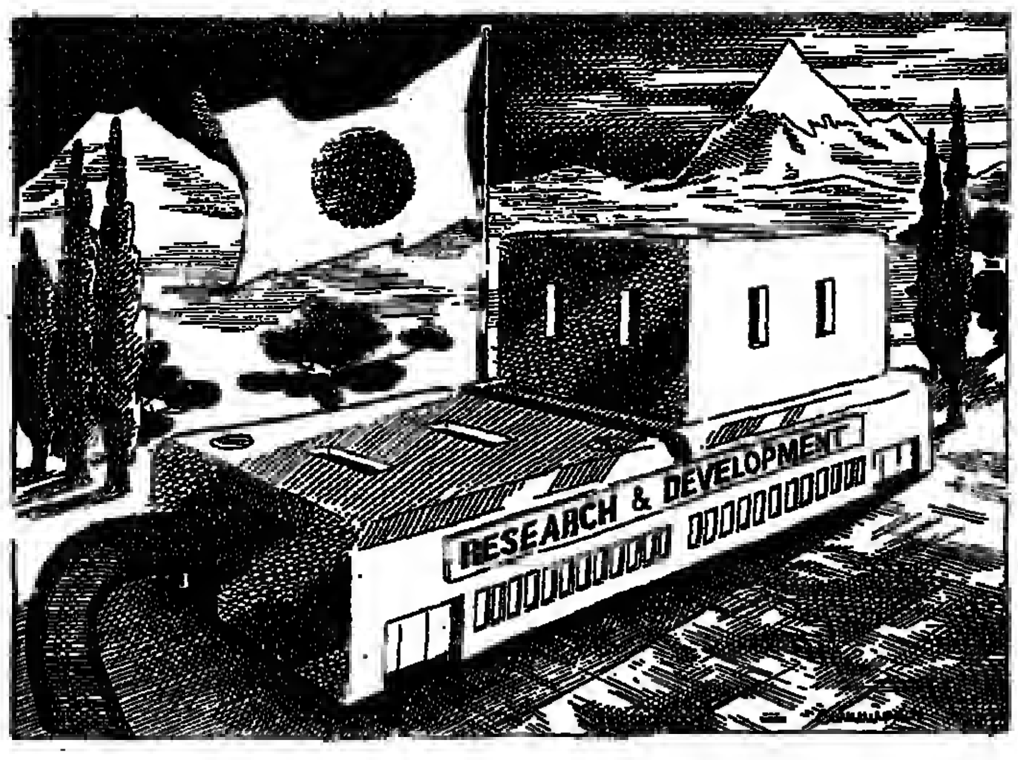
The taxpayers were not represented

Rachel Davies
Barrister

TECHNOLOGY

David Fishlock explains why Japan's electricity industry is devoting more resources to research

A new generation of Japanese R&D comes of age



The Tokyo Electric Power Company, Japan's biggest electricity company, is planning to expand its in-house research and development activities. But it believes it must continue to support a large co-operative R&D programme with other electricity companies.

Why is this privately owned industry expanding its R&D at a time when the UK electricity industry shows every sign of reducing its total spending in the run up to privatisation? And why does the Tokyo Electric Power Company (Tepco) want to fund two programmes?

Yusuke Sawacuchi, an executive with Tepco's engineering R&D, says Tepco was aware that it was failing to attract enough top talent leaving university. Electronics is more of a magnet now than "heavy" electro-technology. Tepco asked new graduates what kind of company they wanted to work for. The graduates said one that developed its own technology. "The argument was quite persuasive," Sawacuchi says.

Tepco plans to open a new R&D centre in the early 1990s, initially for about 500 scientists and later for up to 1,000. But it will continue to spend heavily on contract R&D, Sawacuchi says.

All but a small proportion of its Y45bn (£200m) R&D programme is carried out under contract, mostly in the laboratories of contractors such as Hitachi and Mitsubishi. In-house resources consist of an engineering laboratory in Tokyo employing about 130 staff.

Tepco is the biggest contributor to the R&D programme of the Central Research Institute of the Electric Power Industry (Criepi) in Tokyo, a co-operative research centre of more than 800 staff funded by all nine Japanese electricity companies. Its speciality is interdisciplinary subjects and questions of common concern to utilities, each of which has a monopoly in the area it supplies.

Criepi was created in 1951, by a decree which levied 0.002 per cent of each utility's sales turnover to underpin an industry that was growing rapidly but had no in-house R&D.

Initially, an important task was to co-ordinate Japan's electrical R&D, where the participants shared a single dominant problem – how to meet rapid growth in demand for electricity.

This co-ordinating role has since transferred to the Central Electric Power Council, a body which also manages power transfers between utilities.

After nearly 40 years, Criepi finds itself at a turning point, says Akio Sakurai, its planning director. Growth in the mature industry – and hence Criepi's income – has levelled off, showing an average annual increase of about 3 per cent in the 1980s, although it has been nearer 5 per cent for the past two years.

Demand for electricity is no longer growing steadily. Utilities companies which serve rural regions – such as Tohoku Electric in the north of Hokkaido – are eager to stimulate faster growth through R&D.

Where once Criepi was the industry's R&D centre, today it is responsible for only about one-sixth of an annual Y180bn R&D investment. It still retains its independence but focuses on longer-term programmes and issues it believes can be more efficiently researched as a co-operative effort.

Half of Criepi's projects are initiated in-house, 45 per cent by its sponsors and 5 per cent by government.

Criepi's has three broad research objectives for the 1990s:

● To cut the cost of electricity supply. Two-thirds of its spending is on nuclear R&D. One programme concerns the sodium-cooled fast reactor. The government is paying for the experimental and prototype fast reactors, but the utilities expect to pay for two stages of demonstration at commercial size before the technology becomes fully commercial in Japan in approximately 40 years.

Japan must first choose between the pool-type approach being pursued in Europe and the loop-type approach pioneered in the US. The pool-type is seen as having seismic advantages over the loop-type. Criepi is acting as broker, compiling data so that industry can take important design decisions for the first demonstration project next year.

● To create new services for the industry. Criepi is studying what electrification – and particularly off-peak power – can offer rural regions which historically have been heavily dependent on fishing and farming.

● To improve the quality of electricity supply. Criepi plans to introduce next year a pre-paid electricity card system that will allow the user to tap electricity as freely as the telephone card permits use of the public phone in Britain. Among its functions, the electricity card also warns users against any risk of overloading the supply.

For the electricity companies to stay profitable, they must diversify, Sakurai believes. Already they are moving into such activities as communications, superconducting technologies and artificial intelligence. "The questions for Criepi are how far and how much," he says.

Bad proteins exit the system

PROTEINS are ubiquitous molecules found naturally in the human body in thousands of different forms. For biological processes, they are vital.

But the body can sometimes produce proteins which cause problems to health and endanger life. Ways of tracking such organisms – and often removing them – are being studied by two instrumentation companies in the UK and Sweden.

Engineers at Excorim in Sweden have produced a machine which screens out potentially harmful proteins in the bloodstream. Certain classes of the immunoglobulin proteins, for example, can cause illness because of the way they act as antibodies against the body's own tissue.

The machine is connected to a patient's veins while the person's blood is pumped through, in a similar way as kidney dialysis. The screening system binds the immunoglobulin proteins with another group called Protein A. The Protein A lines a tube that blood is passed through and attracts the unwanted substances.

According to Mr Gustav Samuelsson, Excorim's president, the instruments have proved effective in treating patients with a number of conditions, including some types of diabetes and cancers. They have also been used to remove certain antibodies from the bloodstream prior to organ transplants which can lead to the organ's rejection.

The machine costs £30,000 and Excorim has sold about 60. Research to discover its effectiveness is continuing in a number of clinical centres.

In a second development, Oros, based in Slough, Berkshire, is developing a range of instruments to purify pharmaceutical products, such as protein-based medicines. They are based on copies of natural proteins and work by influencing processes in the body that can cause disease. One such medicine is called tissue-plasminogen activator (TPA) – a copy of a protein found in the human body – that is used to treat heart-attack victims.

One of the instruments uses a laser technique to spot large aggregates of proteins which are above a specific size. Mr Bill Henderson, Oros's chief executive, says the instrument can be used to test the quality of some protein-based drugs which are under development by biotechnology companies.

Protein-based drugs such as TPA have to be produced under strict quality control conditions. If a patient receives injections of a drug in which large quantities of proteins have stuck together instead of being single molecules, aggregates can interfere with the blood and damage health.

The instrument, which costs £10,000, is small enough to sit on a bench top and is based on a miniature laser originally developed at the Ministry of Defence. The system shines light at particles such as protein molecules in a fluid and works out their size by analysing the reflected radiation.

Peter Marsh

An artefact that displays buried treasure

Telecommunications are about to make their entry into the museum world through a four-year project which will culminate in a demonstration at Expo '92 in Seville, Spain.

The aim is to give visitors access to data stored in museums through terminals that are connected to a telecoms network. The information would be retrieved in the form of still or video images, sound, music or text.

The theme of the European Museums Network (EMN) project is Exploration: Traces of Europe's Cultural Integration. "People often forget there were connections between European countries in the Neolithic age," says Patrick Cardon, Secretary General of the International Council of Museums (Icom), which is helping to co-ordinate the project.

The system is based on the "associative approach", enabling users to choose from established links between subjects and objects or to create their own.

The software being developed for the EMN, known as Discovery, could be applied to any theme, such as Eastern, Buddhist or Slavic art. It could later be applied to a range of other activities – bringing museums to schoolchildren or hospital patients, or information about stolen art objects to Customs services.

The project is part of Race, the European Community's telecommunications research programme. It was set up in 1987 to promote integrated broadband communications (IBC) between the 12 member nations, using optical fibre.

Race is funding half of the Ecu 10m (£7m) cost of the EMN scheme and the other half is being shared by 18 partners – museums, corporations, research institutions in Denmark, France, Portugal, Spain and West Germany. Other countries may join in as the work progresses.

Broadband communications is well-suited to live transmission of high-definition images because it can carry up to 140 megabits of information a second. But its introduction is being delayed by arguments over international standards.

The scheme could still go ahead, however, with a back-up system of 2 megabits a second, although the selection of artefacts would be limited. If this happens, the images would either have to be transmitted overnight and stored, or video disks sent and kept in "juke boxes."

The project team is looking for suitable hardware and Apple Computer has offered to supply the equipment for a test version.

The museums involved cover art, architecture, ethnology, archaeology and technology. The corporations include an information and telecommunications multinational, two public service and network providers, one electronic publisher and one private cable television service provider.

For Race, the project has a number of objectives: to develop a system that can be used by people who are completely unfamiliar with the technology, to generate ideas for specialist IBC services, to understand future telecoms user needs and to develop sophisticated transnational multimedia applications for business.

It should also prompt governments to reach agreement about standards and give them reason to invest funds in setting up a broadband system.

The idea for the EMN project came from the Art in a Network exhibitions in Hamburg and Florence in 1986 and 1987, where visitors could access an associative database on the displayed works.

The Fraunhofer Institute for Systems and Innovations Research (ISI) in Karlsruhe developed the concept, formed the international consortium and proposed the project to Race last October.

In the first phase of the pilot scheme, due to start at the end of this year, each museum will select three objects to be shown in still images on a single workstation.

The system will not be fully operational, but the two-month experiment should produce answers to some important questions on quality of image, information choice and the time the average visitor spends at a workstation.

At the end of the project, the museums hope to offer 100 objects each for users to browse through.

Barbara Casassus

ARTS

Norihiro Inoue and Yuko Tanaka

Suicide for Love

LYTTELTON THEATRE

After pulverising us with exotic re-vamps of the classics on previous visits, the Ninagawa Theatre of Tokyo (produced with Point Tokyo, supported by Panasonic and the Japan Foundation, sponsored for eight NT performances this week by the Great Britain–Sasakawa Foundation) now brings a contemporary synthesis of three 17th century plays.

Although the scale is impressive (it is not every night of the week you see 73 actors on stage), the treatment is less exciting than we saw in *Medea* and *Macbeth*. But at the same time, the intensity of the acting, a sort of post-Kabuki heightened realism, is sustained into more lyrical and domestic crevices than before. There are two pairs of doomed lovers – the geisha Umegawa and the courier Chubei; and Chubei's friend, Yohei, a furniture salesman, and his wife, Okame.

The story, cobbled together by Matsuyo Akimoto, combines elements of Bunraku, *shinju*, and the suicide pacts of Kabuki. But as the action moves from the densely populated, orange-lit pell mell of the brothel to the cluttered new bourgeois interior of Yohei's house (plaster buddhas, guns, plates and filing cabinets), you get an *extraordinary sense* of accumulating tragedy in close-knit society, rather like Tennessee Williams's small town visions Down South.

The costumes are gorgeously traditional, male heads shaven with central flattened top-knots in Kabuki badger-cut style. The delivery of the lines is forceful, to put it mildly, and underpinned with an insidious Japanese version of the sort of soupy French chanson they pipe through airport lounges full of, well, Japanese tourists. But the pathos is all upfront.

What's happened? Chubei's nemesis, a wealthier courier, tries to secure the services of Umegawa, but Chubei raises funds to buy her out by borrowing from Yohei. He further fouls his pitch by breaking the seal on Government money entrusted to him.

In the last act, a Ninagawa special, Yohei and Okame are discovered in a sensational paddy field by a river and a full moon. Vanessa Redgrave's recorded synopsis steals the laughs of the bungled suicide attempts, but Yohei stabs Okame, drops the knife in the river, slips in after it, is rescued, and fails to hang himself. This slapstick knockabout is followed by a snow storm, a swirling effect of cinematic infinity, in the mountains, where a blood red scarf and geyser-gushing slashed throat do for Umegawa and Chubei.

In the latter roles, Yuko Tanaka, pretty as a porcelain doll, and Norihiro Inoue, are outstandingly effective, conducting their amorous liaison in a series of bold pietas and gestural embraces. The support couple of Kyoko Togawa and Ryo Amamiya are the Vivian Blaine and Ray Bolger of Hollywood comedy. The nasty nemesis is given the teeth-sucking, chuckle-chortling villainy works by Haruhiko Joh. The settings are by Setsu Asakura, the costumes by Jusaburo Tsujimura.

The side aisle entrances of the chief geisha and the hero are reminders of Kabuki stage conventions, full of decorum and burning lanterns. But the point here is how very old plays of stylish symbolism can be exposed to the rigours of psychological acting. The experiment is at the least enjoyable, though Yukio Ninagawa is not here really firing on all cylinders. And the music is horribly naff.

Michael Coveney

TELEVISION

Story time comes round again

Woolworth's are selling Christmas cards and before the month is out the clocks will go back and the British will once more be battened down in their northern fastness for those long winter nights with a bottle of Scotch. It is story time again. The connection between northern winters, the telling of epic tales around the fire, and alcoholism must surely form the basis one day for a PhD thesis. Of course these days when the hunter returns to his lair, the flickering light before which he slumps down comes not from the fire but from the television. And instead of listening to stories from his friends and taking turns to spin the yarn himself, he relies solely on television to do the job.

Returning from late summer in the Mediterranean to early autumn in the north Atlantic, I found the sheer quantity of story telling on British television striking. True, the epic quality of Beowulf is not much in evidence, but former generations were clearly fascinated also by tales on the domestic level of The Wife Of Bath and there is certainly plenty of that sort.

The most heavily publicised production of the week, for instance, was BBC1's first ever "film" (the first to be shot on 35mm stock and shown in the cinema before coming to the small screen) *She's Been Away*, which told the story of an elderly aunt, taken back into a family after years in a mental institution. It arrived under a barrage of star names – director Peter Hall, leading actress Peggy Ashcroft, lighting cameraman Philip Bonham-Carter and so on – and strewn with garlands from the Venice film festival.

It was consequently surprising and disappointing to discover a work which, although it had a number of memorably powerful scenes, such as the one in the hotel dining room with its awful staff, ghastly music, and horrible "aquarium" effect glass walls beside the swimming pool, also had a lot of scenes which lacked internal credibility.

It was simply not believable, for example, that a woman as intelligent as Geraldine James' character, Harriet, would rely upon the unspeaking aunt to guide her into a parking space and, through lack of warning, wreck the Daimler. Similarly it was just not credible that Harriet would leave the old lady alone to create havoc in the supermarket. The most powerful element to emerge in the end was the misanthropy of the writer Stephen Poliakoff who appears to despise men, women and children just about equally. It is neither an attractive characteristic, nor a very good foundation for a story.

However, *She's Been Away* was unusual in being a single drama. There were at least six other new stories for the 1989 autumn season in the past week, all of them serials, designed to draw us back to the flickering box time after time. Tuesday's *Capital City*, seems to have been specially created with FT readers in mind. Set in the trading room at the Shane Longman bank it is one of those modern legends which (like *Campaign*, the series about advertising folk) seeks to have its *cake and eat it*.

On the one hand it wallows happily in the glamorous lifestyle of the trendies: power dressers are repeatedly observed through venetian blinds attached to *internal* glass walls, and the camera drools over the bottles of Krug and GTi cars. On the other hand it is determined to show that money can't buy you love or happiness, so the characters all prove to be inadequate in one way or another, if not total raving loons. Even if it has more to do with a tabloid image of the City than with reality, there is enough narrative drive here to pull you back for another episode.

BBC1's offering on the same night, *The Paradise Club*, is less compelling. On the *evidence of one episode it is not clear* whether this glimpse into the London underworld is ironically anachronistic or

Peggy Ashcroft in her award winning performance in the BBC's film 'She's Been Away'

just out of date. Perhaps the producers really believe that people still make remarks such as "That kid sure blows a mean sax." Perhaps they are aiming for a big audience for previous television series such as *Minder*. It will take another episode to decide whether it is too clever by half or not half clever enough.

The Wednesday series *Confessional* is yet another of the cold-war stories which ITV must find hanging so embarrassingly heavy on its hands in this age of glasnost. These days it takes literally years to carry a big television drama series through from conception to transmission, and presumably Mr Gorbachev had not begun his crusade when ITV went into production with a succession of 1960s-style East/West thrillers of which this is the latest.

It seems more than a little odd to be showing how the Commies brainwash a young man to create a murderous automaton in the very week that the *Hungarian Communist Party* blithely votes to auto-destruct. Even more bizarre is the idea of then infiltrating him into Ireland as a priest, not merely because this seems to create such unnecessary difficulties, but because the Russian motives are so obscure. They want to destabilise Ireland? Give the IRA a bad name? Make Ireland a thorn in Britain's side? Next they'll be digging a channel to separate Britain from continental Europe . . .

Clashing with that is BBC2's *Nice Work*, a four-part dramatisation of David Lodge's splendid novel which carries the story of Rummidge University into the late 1980s. Lodge can hardly complain about the adaptation since he did it himself, but keen followers of story-telling, who greatly admired the book as I did, may feel that no literal manifestation on a television screen can ever match the pictures produced by the traditional partnership of storyteller and listener.

Here is yet another illustration, as though we needed one, of the fact that first rate literature rarely transfers to television as successfully as the second rate. Yes, yes, it is good to have a television version for all those who will never otherwise come across Lodge's work at all, but the richness of the book – as pastiche of the 19th century industrial novel, as an over-view of England today, as analysis and critique of Thatcherism, as a vivid chart of social mores – simply cannot be conveyed by the 625-line storyteller.

It does not follow, of course, that fourth-rate literature makes wonderful television: on the contrary, it usually makes fourth-rate television. But Friday's ITV series, *Act Of Will* (or "Barbara Taylor Bradford's Act Of Will" as they absurdly insisted upon billing it) proved worse than that. The plotting was hackneyed, the acting poor – which in British television drama is virtually unheard of – and solecisms proliferated: in the 1930s there was talk of "paparazzi," a word that did not enter Chambers until the 1963 edition; the characters wore fashionable 1989 waxed cotton jackets; the emergency vehicles in New York had late 1980s sirens, and so on.

Finally *Saracen* provides ITV with another of those bang-bang series of the sort it has always liked to screen on Saturday nights. Previous examples include *Dempsey And Makepeace* and *The Professionals*. As with those, this new work is about the members of some sort of security service, but – this being the age of Thatcherism – we gather that "Saracen" is a private enterprise business.

It is a proficient enough example of the genre, but scarcely in the "Lancelot" category when it comes to quietening the chat around the fire. There is still much to come in this autumn season, including Dennis Potter's *Blackeyes*, John Mortimer's *Summer's Lease* and Christopher Hampton's adaptation of *The Ginger Tree*. But so far the ones that justify tossing another log on the fire and pouring another glass are *Capital City* and *Nice Work*.

Christopher Dunkley

Mammame

QUEEN ELIZABETH HALL

For the past decade the French have been producing *something* they probably think of as *La Danse Moderne*. It has nothing to do with Modern or Post-modern *Dance in the* Anglo-American sense of a movement vocabulary developed from the traditions of Martha Graham and Cunningham. Rather is it a kind of derailed theatre, off the track, on its side, wheels frantically spinning, going nowhere. Its roots lie in no recognisable discipline, but in its practitioners' philosophising, their willingness to adopt any idea for airy theorising about art and life. Physical theatre, performance art, speech – Dear Heaven, the chattering that goes on! – are part of a manner self-invented, self-absorbed, idiosyncratic, incomprehensible. And massively supported by government subvention, since this activity has gained a weird national popularity.

Those several representatives of the style that I have seen are exhaustingly tiresome in their rejection of coherent or disciplined movement. They prefer posturing and the physical subtleties of a street brawl, while their arcane messages to the world are offered with a child-like trust in our good nature in accepting such hand-wrought monstrosities. (The child Frankenstein showing his family his early experiments on his pets.)

The most tiresome by far, in my experience, is Jean-Claude Gallotta, who, with his Groupe Emile Dubois, is the first step along the *via dolorosa* of this year's Dance Umbrella. Monday night's opening *performance revealed the* Groupe in all its bizarre glory. M. Gallotta serves as ring-master to an unlikely gang of four men who are variously bearded, balding, bespectacled, bow-legged, and to four ladies who can at least be said to boast some gymnastic energy. Not, indeed, that technical prowess, expressive force, seem necessary to the exquisite tedium of *Mammame*, a ninety minutes without interval assault on the Entente Cordiale. The programme calls it "a work." I would amend that to "an incitement to riot and the use of an Exocet missile to clear the stage."

The evening's fatuities allow the cast to run, fall, lie, yelp, crawl, play stupid games, wear unisex shirts and shorts, and look like the denizens of a maximum security asylum undergoing therapy. Nothing happens, though the dark night of the soul comes when part of Schubert's Great C major symphony is played as the cast crawl on their knees and indulge in yet another witless game. It is, I would suggest, an evening only for seekers of the Truly Awful.

M. Gallotta is director of the Maison de la Culture in Grenoble; his Groupe is a Centre Choregraphique National. Hm!

Clement Crisp

Ariane et Barbe-Bleue

HET MUZIEKTHEATER, AMSTERDAM

After its Paris première in 1907, Paul Dukas' Bluebeard-opera – his only opera – was staged in several operatic capitals before the Great War; it has trembled on the edge of revivability ever since, without finding a permanent niche. Even now, the fact that it is a pure women's-lib opera hasn't been enough to reinstate it in the repertoire. This Netherlands Opera venture is therefore both brave and welcome.

Perhaps not exactly "pure" women's-lib: for Maeterlinck's libretto – first intended, bizarrely, for Grieg – had the original subtitle "La délivrance inutile." Intrepid Ariadne, Bluebeard's sixth wife, defeats the brute (with the help of his revolting peasantry) and then contemptuously releases him before departing, only to find that all the other wives prefer to remain in his thrall. She concludes sadly that one can only liberate oneself.

Ariadne's fate is luckier, of course, than her counterpart Judith's in the 1911 Bluebeard-opera of Bartók, whereas the fate of the two operas has been the other way round. The libretto that Bartók got from Bela Balázs owes much to Maeterlinck – the looming forbidden doors and their concealed treasures, the twist of the un-murdered wives, and the "New Woman" idea itself; but it is much more economical in length and in singing cast, and Bartók's music is more potently concentrated.

The 3-act Dukas score is coolly expansive and leisurely, with sumptuous pre-echoes of his ballet *La Péri*. Bluebeard sings only in Act 1, and not for long, reappearing mute and abject in Act 3; but four of the five fearful wives have substantial singing roles, and Ariadne has an impassioned Nurse (this pair bears a curious resemblance to the Empress and Nurse of the Strauss/Hofmannsthal *Frau ohne Schatten* which came later). Ariadne herself is a dominating dramatic mezzo: Dukas prudently designed the role for Maeterlinck's mistress Georgette Leblanc – Debussy had famously fallen out with the playwright a few years earlier when he rejected her bid to create his Mélisande.

Netherlands Opera found Kathryn Harries for its heroine, and despite having to beg indulgence for a bad throat on opening night she was plainly an ideal choice. She looked properly dauntless and concerned as well as beautiful, and her warm eloquence in the long role proved that Dukas' word-setting amounts to far more than recitative strung over his orchestral tapestry. The enforced vocal constraint was a real hindrance only at the climax where she breaks open the wives' tenebrous prison (a close match for Siegmund's drawing the sword from the oak), though one could imagine what Miss Harries will make of it in full cry.

Sandra Walker made a tireless, volatile Nurse, equipped with a splendid nanny's reticule for the precious keys. Thea van der Putten led the other wives with lively feeling, and Bluebeard was the veteran Roger Soyer, whose somewhat frayed bass still suggested baleful authority. The conductor Henry Lewis unfolded the score, all sonorous chiaroscuro and fin-de-siècle exoticism, with tender, unhurried sympathy, and bar the odd mistuned moment the Netherlands Philharmonic played up in style.

Amid Xenia Hausner's glowing, grand-scale sets, entirely apt for the tale – even if the first six "doors" were only draped jewel-chests – Philippe Sireuil staged the action simply, without extraneous directorial tricks. He neither shirked nor overplayed the Sapphic undertones in Ariadne's mobilisation of the sisterhood, which Maeterlinck dwells upon and Dukas makes sweetly lyrical. Nicely in period, the ladies' brief release was signalled by flowery wreaths and pre-Raphaelite shifts to replace their brocaded robes.

A further degree of incisiveness both in the stage-playing and in the overall shaping of the score would – and no doubt will, after another couple of performances – sharpen the impression already made by all this excellent work. I should think it would translate admirably to the stage of the ENO, and it would be a cause of sincere gratitude. *Ariane et Barbe-Bleue* is far too attractive and interesting a piece to gather dust in the operatic museum.

David Murray

Arts go into the red

Arts companies, clients of the Arts Council, have run up a collective deficit of £10m this year to date, with more financial problems to come. This was the warning signalled by Mr Luke Rittner, secretary general of the Council, when introducing the annual report for 1988-89 yesterday.

Not surprisingly, there was little interest in the past year but widespread concern about the likely Government response to the pressure being mounted by the arts world against inadequate funding. The Government has promised the Arts Council a 2 per cent increase in grant for the next financial year, a figure fixed before the rise in inflation: but arts companies are looking for an increase in subsidy up to at least the level of current inflation. Any change in the Government's grant, currently fixed at £160m for 1990-91, will be known next month.

Mr Palumbo, chairman of the Arts Council, brought little joy from his recent meeting with the Prime Minister, where he argued that the leading British arts companies were victims of their own success. He was at pains to point out how well the arts had improved their managerial efficiency and how they were well poised to take the lead in the common European market after 1992. But so far there are no signs that the Government will meet the well argued demands of the arts community for a higher subsidy.

Mr Palumbo is making the case for more money on three levels: the arts are now better managed than in the past; they contribute to the quality of life, now high in the Government's priorities; and that there will only be a generous response from corporate and personal benefactors of the arts if the Government offers a lead.

"If the Government gives the right signal to the private sector the private sector will respond. If the Government gives the wrong signal it will be a thousand pities," Mr Palumbo said yesterday.

In the Annual Report of the Council, Mr Ian Rushton of Royal Insurance, whose company has sponsored the hard pressed Royal Shakespeare Company to the tune of £1.1m, expressed corporate concern that sponsors, who now invest over £30m annually in the arts, are being used as a substitute for Government funding rather than as icing on the cake, the traditional view. He suggested that RI would examine its continued aid for the RSC in January in the light of the Government's grant for 1990-91 and subsequent years.

The entire Arts Council Board goes into seclusion at Leeds Castle in Kent for three days from November 19 to assess the Government's response to its campaign. Apart from a straightforward increase in grant, other alternatives to the financial problems are tax concessions for patrons of the arts, or savings in Arts Council operations through a merger with the Crafts Council and among the Regional Arts Associations, a possible recommendation from the Wilding Report, due next week. Mr Palumbo has argued for more private sponsorship from the nouveaux riches of the Thatcher years.

Antony Thorncroft

SALEROOM

Surprise price for Kali

A North Indian bronze figure of Kali, which Christie's catalogued as 18th century and provincial, was regarded by at least two potential buyers as 10th century and rather fine and was bid up to £20,900 yesterday, way ahead of the £700 estimate, at an auction of Asian works of art which totalled £280,303 in the morning session, with 25 per cent unsold.

A Gandhara grey schist figure of the Bodhisattva Siddhartha of the late 2nd century was on target at £26,000 while a folio from the Basohli School, which developed a great skill in painting in the late 17th century in the Hill states of the Western Himalayas, realised £17,600.

In the afternoon session a Qajar painting of Sultan *Muhammad Mirza*, painted in Persia around 1835 and out of favour since the Iranian Revolution, sold for £22,000, at the low end of its estimate while a 10th century Qur'an leaf from Kairouan was on target at £24,200.

The Nobel Prize for Medicine, or rather the large gold medal awarded to the British scientist Sir Henry Hallett Dale who received it in 1936 for his work on the chemical transmission of nerve impulses, sold for £5,720 at Glendining's yesterday to a Japanese buyer. In the same auction a proof set of Queen Victoria's coinage of 1839 was on target at £20,550, while a very rare sovereign of Henry VII was also within estimate at £19,250.

Christie's also sold coins, realising £17,600, three times forecast, for a 50-Reales of Philip IV of Spain, minted in Segovia in 1623.

Antony Thorncroft

ARTS GUIDE

October 6-12

THEATRE

London

Anything Goes (Prince Edward). Cole Porter's silly ocean-going 1930s musical has four or five marvellous songs and Elaine Paige failing to emulate Ethel Merman. Jerry Zaks's desperately bright production comes from the Lincoln Center in New York and is undemanding summertime fare (734 8951, cc 836 2428).

The Master Builder (Barbican). *Magnificent RSC revival of* Ibsen's late poetic drama of lies, deceptions and misrouted sensuality. John Wood is the first great Solness since Redgrave, then Olivier, played it in London. Adrian Noble directs, Richard Hudson's tilting roofs chart the aspirations and final dramatic plunge. (638 8891) Oct 10, 18-19, 25, 26, Nov 1, 2.

The Tempest (Barbican). John Wood's other great performance this season with the RSC is his Prospero in Nicholas Hytner's production, a towering, intemperate impresario whose magic is an instrument of both revenge and resolution. (638 8891) Oct 11, 12, Oct 20-24, Oct 30, 31.

Another Time (Wyndham's). New Ronald Harwood play, directed by Elijah Moshinsky, about a white South African family in Cape Town and Maida Vale. Albert Finney plays father and concert pianist son across 35 years, suggesting that talent is a means of escape and a reason for *not going back*. Janet Suzman and Sara Kestelman are electrifying in support. (867 1116)

M. Butterfly (Shaftesbury). *Anthony Hopkins as the tortured* diplomatic hero in a Peter Shaffer-style "spectacle of ideas" dressed up in John Dexter's superb production as a metaphor of homosexual life. The transvestite tragedy proves less electrifying than in New York; the play is not very good *but* still worth seeing (379 5399).

Aspects of Love (Prince of Wales). Andrew Lloyd Webber's latest is an intimate chamber operetta derived from David Garnett's 1955 novella. Musically interesting and well directed by Trevor Nunn, a cast of unknowns project the right sense of sybaritic insouciance. A probable, but unspectacular, hit (839 5972).

New York

Heidi Chronicles (Plymouth). Wendy Wasserstein's award-winning drama covering 20 years in the life of a successful American baby boomer goes from support for Eugene McCarthy's presidential aspirations to electoral ambitions in *the 1980s, accompanied* by the musical and emotional flavour of the period (239 6200).

Sweeney Todd (Circle in the Square). An intimate production of the Sondheim-Wheeler musical *in contrast* with the elaborate original a decade ago emphasises the descent into madness of Bob Gunton as the demon barber of Fleet Street (239 6200).

Lend Me a Tenor (Royale). A sprucing up in the set of a decaying *town's* big time opera ambitions makes a transatlantic hit of this farce, first produced in London, but now with a local cast led by Philip Bosco and Victor Garber (239 6200).

Jerome Robbins' Broadway (Imperial). Anyone attracted by the notion of a three hours of film trailer previews will adore this compendium of Robbins' directed and choreographed plays of the past 40 years, including On the Town, West Side Story and Gypsy. The lustre of the credits is dimmed by the brevity of each piece, with a contemporary crew of Broadway aspirants who lack the multi-talents that inspired the heyday of the musical.

Rumours (Broadhurst). Neil Simon's latest comedy is a self-conscious farce, with numerous slamming doors and lots of mugging but hollow humour that misses as often as it hits. Christine Baranski leads an ebullient cast in the inevitable but disappointing hit.

A Chorus Line (Shubert). The longest-running musical in the US has not only supported Joseph Papp's Public Theater for eight years but also updated *the musical genre* with its backstage story in which the songs are used as auditions rather than emotions (239 6200).

Les Misérables (Broadway). The magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama (239 6200).

Me and My Girl (Marquis). Even if the plot turns on ironic mimicry of Pygmalion, this is no classic, with forgettable songs and dated leadenness in a stage full of characters. It has nevertheless proved to be a durable Broadway hit (947 0033).

M. Butterfly (Eugene O'Neill). *The surprise Tony winner for* 1988 is a somewhat pretentious and obvious meditation on the true story of the French diplomat whose long-time mistress was a male Chinese spy (246 0220).

Phantom of the Opera (Majestic). Stuffed with Maria Bjornson's gilded sets, *Phantom* rocks with Andrew Lloyd Webber's haunting melodies in this mega-transfer from London (239 6200).

Laurie Anderson (Brooklyn Academy of Music): The performance artist opens the season's Next Wave Festival with her latest solo work, Empty Places. Ends Oct 15. (718 636 4100)

Washington

A Few Good Men (Eisenhower). One of the few new, contemporary dramas headed *for* Broadway gets its world permiere in Washington, in this story of a military cover-up. Ends Oct 29. (467 4600)

Chicago

The Misanthrope (Goodman). The first production of the season exchanges Moliere's France for contemporary Hollywood in a new adaptation by Neil Bartlett, directed by Robert Falls with David Darlow playing Alceste. Ends Nov 4 (443 3800).

Driving Miss Daisy (Briar Street). The touching relationship between a dowager, played in this production by Dorothy Loudon, and her black chauffeur exposes the changes in the South over the past several decades (348 4000).

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That sinking feeling again

SO FAR as UK exchange rate policy is concerned, we will know what the Government thinks when we see what it does. Given the long-standing differences over the role to be accorded to the exchange rate – differences underlined by the Prime Minister's consistent refusal to endorse the Chancellor's exchange rate policy – and her equally resolute refusal to allow UK participation in the exchange rate mechanism of the European Monetary System, the uncertainty is inescapable.

The fall in the pound this week is itself largely the result of the resulting limited credibility of the commitment to keep it up. Few participants in the markets supposed that the Chancellor of the Exchequer would obtain the Government's backing for yet another increase in interest rates. Traders assumed that he had shot his bolt last week. Consequently, press rumours about rifts in the Government, comments from Karl Otto Pöhl, the president of the Bundesbank, on the need for currency realignments within Europe and the vulnerability of the UK's foreign exchange position were, taken together, quite enough to drive sterling down.

High price

This, in turn, means that the Chancellor's repeated warning to industrialists that they will not be bailed out by a depreciation has become still less credible. The UK is paying a high price for the unwillingness of the Prime Minister either to back or sack her Chancellor.

Events this week re-confirm the general conclusion on the interpretation of policy that can be drawn from what has happened since March 1988. As the Chancellor put it in June this year, "we will not allow the firmness of our monetary stance to be undermined by a depreciation of the exchange rate." The policy is, in effect, to allow compensating adjustment of interest and exchange rates, with the exchange rate used as both an adjustable target and an indicator of monetary tightness.

The current setting of the policy instruments may not in themselves be inappropriate. The nominal exchange rate is now, both on an effective basis and against the D-Mark, roughly where it was for most of 1987 (while higher than in late 1986 and early 1987). The unwanted appreciation in 1988 did, indeed, prove unsustainable, as the Chancellor argued it would. Meanwhile, base rates are 5 percentage points or more higher than for much of 1987 and the first half of 1988. The current account deficit has given the Chancellor the exchange rate be fought for, along with the tighter monetary policy that was, in view of domestic monetary developments, also required.

EMS membership

The question now is whether the downward plunge can be stopped. Not only will yet another rise in base rates, however unpopular, be required if the pound slips towards DM 2.90, but the Chancellor will have to reconsider other policies as well. To take one example, quite apart from the desirable effect of less than full funding on the growth of broad money, rates on long-term bonds now look increasingly inappropriate for a country that needs to borrow on a huge scale, and for a long time.

Policy-making would undoubtedly be easier if the UK were a full member of the EMS. A realignment might have been warranted, but both its size and significance would have been transparent. There would be no reason for anyone to suppose that sterling had just gone the first few inches over a waterfall. Correspondingly, industrialists would have been more likely to regard the current exchange rate as relevant to their long-term investment and production decisions, instead of as yet another transient moment in a long history of instability.

It would be wrong to panic. At the very least profitability in the production of tradable goods is now at levels which should allow production to rise and the trade gap to be closed, if only over a number of years. None the less, serious mistakes have been made, and one at least continues to be made: the persistent uncertainty about the exchange rate and monetary policy of the UK makes the cost of implementing any policy far higher than it need be.

A valuation gap in share prices

THERE HAVE always been two markets for companies, the public stock market and the private intercorporate market. Nor is it unusual that valuations should diverge between the two. What has been remarkable about recent capital market conditions, however, is that the valuation gap should have become so large.

The price offered by Hoylake for BAT Industries, for instance, albeit now withdrawn, was roughly double the stock market price of BAT a year ago before a takeover bid started to become viewed as a possibility. More topically, the price being proposed by Australian Mutual Provident for Pearl Group is about 55 per cent higher than this year's stock market low. Years ago, a bid premium of 25 per cent or 30 per cent would have been regarded as adequate to give a chance of success for the bidder. These premiums are usually much higher nowadays.

Difficult conditions

Traditionally, company valuations are regarded as being enhanced by flotation, because the company gains access to a large and liquid capital pool where the required returns to the investor are lower. In contrast, a private company has more restricted access to capital, and its value must be lower.

The paradox in the past couple of years in the UK, however, and more extensively still in the US, has been that some companies have been able to buy themselves out from public ownership and go private. This trend has faltered recently in the face of more difficult trading conditions, but many fee-hungry corporate finance intermediaries are promoting the idea.

It is sometimes said that stock market investors are good at valuing income streams, but are poor at judging asset values. Many professional investors use valuation models which depend on earnings and dividend forecasts and on the rate of interest. Racal Vodafone, however, was an example of a company where such concepts gave completely the wrong answer.

Moreover, the valuations by investors went haywire in 1987. Market prices slumped by more than 30 per cent even though there had been no change in the prospects for corporate growth. In Britain, significantly, companies became heavy issuers of new equity in that pre-crash period, whereas more recently they have become net buyers of their own and other public companies' shares.

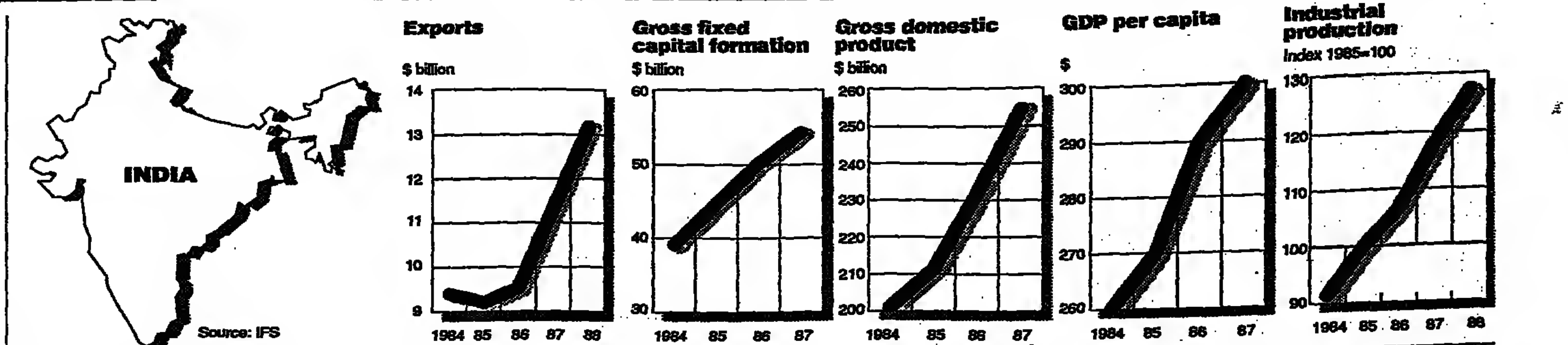
It has become possible, therefore, for company executives to believe that the stock market is out of line, and that investors do not recognise hidden values. There is also the synergy argument, which suggests that businesses are worth a premium when they can be put together so as to make larger profits. Obviously this can happen sometimes, but academic studies have suggested that the gains can often be illusory.

Are stock market investors really so blind? There is an alternative explanation, that the increasing divergence in valuation has reflected the impact of new forms of finance upon the corporate sector. In America, the growth of the junk bond market has permitted the financing of a great many deals which would otherwise have been impracticable. Junk bonds are rare in the UK (although Hoylake has proposed using a form of them) but the explosion of bank credit has provided an alternative. Some £1.8bn of the credit growth in August reflected takeover finance, according to the Bank of England.

Risk assessment

The central question is whether the lenders in these debt markets have properly assessed the risks involved in corporate takeovers. Stock market investors have defined their risk/return parameters over many decades, in booms and in slumps. Can the same be said of those running junk bond portfolios or the banks bidding competitively for billion pound loan deals?

If the history of past lending sprees in property or the Third World provides any guide, the high valuations in the intercorporate market will in due course become unsustainable, and it will be left to the risk-takers in the equity market to pick up the pieces.



David Housego examines whether India is poised for an era of economic growth

Ready to confound the critics

Tell an Indian that his country could be entering a "golden age" of economic growth and he will look at you with shock and incredulity. But fundamental changes are taking place in the economy which suggest that India could soon find a place in the ranks of Asia's fast growing newly industrialised countries.

"India is teetering on the brink," says a senior official of an international agency. "There could be a sudden and explosive movement into the pattern we have seen in other countries in east Asia . . . India would have no difficulty in achieving an 8 per cent-10 per cent growth rate on a sustained basis."

Mr Anil Nanda, managing director of Escorts, the tractor and motorcycle group, whose company is already being used by German groups to manufacture parts for their worldwide sales network, believes that India is being slowly integrated into multinationals' global production patterns. "The Japanese will come in a big way to source components from India. I am sure of this," he says.

Escorts are now negotiating to produce motor cycle parts for Yamaha plants in south-east Asia where labour costs and currency appreciation are making production too costly.

The Indian economy has already performed much better over the last four years than most people imagine – and markedly better than in the 1960s and 1970s. The annual increase in real gross domestic product has been more than 6 per cent – giving India the fourth fastest growth rate of the world's 25 largest economies.

Over the last three years manufacturing output has risen by an annual 8-9 per cent at constant prices, according to World Bank estimates. Exports in volume terms have grown by an average 10 per cent – meaning that India has begun to regain world market share in exports after slipping back through the last 35 years during which exports have grown at a meagre trend rate of 2-3 per cent.

Over the next four weeks Indian companies are raising in new issues on the capital markets Rs 40bn (£1.5bn), compared with Rs 30bn for the whole of last year and only Rs 10bn four years ago – a leap that reflects rising private sector investment, the larger projects companies are undertaking and the wealth of still untapped private savings.

Corporate profits last year touched a record high. Mergers, acquisitions and disposals are beginning to produce a shake-out in industry.

However, in a year in which an election is due, Mr Rajiv Gandhi's Government is nervous about making too much of the turnround in India's economic fortunes because the impact has been uneven. Growth has been concentrated in certain regions – Bombay and the west coast, the Delhi region and eastern Andhra Pradesh – and has most benefited urban areas and the middle class.

In much of rural India, living standards have been squeezed by rising inflation and unemployment has grown. As in China, more emphasis on market economics has helped to widen disparities.

As these factors imply, the new dynamism in the economy has come from the manufacturing sector and from the freedom that entrepreneurs have been given by the modest liberalisation measures introduced by the Prime Minister in 1985.

In the early 1980s companies still found themselves hamstrung over expanding capacity, building new plants or widening their product range by a system of licences and regulations that protected the high-cost and inefficient operator. They are now beginning to reap the rewards of greater economies of scale, of being able to tap – through mergers and acquisitions – the rich veins of under-utilised capacity, and of greater productivity in the use of capital and labour.

The companies growing fastest are those that have exploited these opportunities. RPG Enterprises (the Goenka group), with interests in tyres, chemicals, power generation and electronics, has expanded into one of India's largest industrial houses through a strategy of bringing top quality management to poor performing companies it acquires. A recent success was Dunlop India, which it turned round before selling its stake to the Chhabria family.

The Thapar group, whose activities span paper, electronics and glass, has been expanding sales at 20 per cent a year. But Mr Lalit Thapar, chairman of India's sixth largest concern, sees the pace accelerating. "Our companies are getting to a certain size," he says. "They are thus generating more internal funds which increases their capacity to borrow and hence their capacity to expand."

The explosive expansion of the consumer market is both providing industry with larger demand and forcing it to be more competitive on quality and cost. In the past, says Mr Thapar, industrialists fought for licences to expand capacity and did not bother with market surveys. "Now we do surveys every month."

Even Hindustan Motors, which has produced the same model of the Ambassador car – based on the Morris Oxford – unchanged for decades, is bringing out an updated version under the pressure of growing competition.

Companies are better placed to build plants of international size because they have discovered in the capital markets a way of tapping India's vast under-utilised stock of household savings. Reliance, which took over Larsen and Toubro, India's largest engineering concern last year, is raising Rs 8.2bn in convertible debentures to help it win big plant construction projects in India and abroad. The increase in fund raising on the stock markets is also putting pressure on companies to improve efficiency and profits.

Industrial houses, are for the first time beginning to integrate exports into their strategic planning as a result of the additional competitive edge provided by the depreciating rupee. Escorts has found a niche in global automotive production by producing components like piston rings and valves for worldwide sales by West German groups. BPL, the consumer electronics company, is negotiating with Sanyo to make radio/cassette players for the Japanese manufacturer which it believes will give it the volume (and hence the lower cost) and quality to grab a larger share of the fragmented domestic market.

Growth has been uneven. As in China, emphasis on market economics has helped to widen disparities

Another striking development is that India is being integrated into the worldwide software market as multinationals shift costly computer programming from Europe and the US to lower cost centres abroad. Texas Instruments has set up a 100 per cent US-owned programming facility in Bangalore and other multinationals are developing similar tie-ups.

These changes have taken place with only minor adjustments to India's complex licensing, tax and foreign exchange regulations and equally small shifts in the tariff and non-tariff barriers that limit imports and hence foreign competition. But a momentum of industrial expansion has been built up that will be difficult to reverse.

The potential growth from further liberalisation is large. "If we loosen the reins a little more, the multiplier effect will be tremendous," says Mr Deepak Parekh, managing director of the Housing Development Finance Corporation in Bombay.

India has other advantages to draw on. Foreign investment still amounts to only $250m (£158m) a year, which is small beside the billions of dollars that have been poured into south-east Asia by multinationals.

India's restrictive foreign investment regulations seem likely to be changed after the election – almost whatever the outcome. Mr Rajah Chelliah, a senior official of the Planning Commission thinks India should look to foreign investment contributing 0.5 per cent-1 per cent of GDP a year in the coming five years – equivalent to $1.4bn- $1.7bn a year in current terms.

As with China, India's brain-drain in the past to Britain and the US is now providing a stock of talent and of funds with an interest in investing in the mother country. Indians of American nationality have invested in 111 industrial units in Gujarat on the west coast. A newly formed association of Indians in the US claims that $17.5bn in investment could flow into the country from Indians living in the US if certain restrictions were removed. And many Indians with US nationality hold senior posts in key sectors like electronics.

Another advantage is that the private sector has increasingly the skills, the funds and companies of the required scale to handle big infrastructure projects – electric power, ports and roads – that have proved bottlenecks to growth in the past. Leading groups and financial institutions are preparing for what seems likely to be a big privatisation programme in the coming years.

A final source of untapped potential is the agricultural sector. Yields in most of India still remain well below what has been achieved in the Punjab and what has been shown to be possible in similar conditions elsewhere. Agricultural output has been rising in the 1980s by a slow 2.7 per cent. Higher levels would boost living standards, jobs and consumer demand.

In macroeconomic terms the most serious constraint on higher growth is the risk of a worsening balance of payments and of higher inflation. The more rapid expansion of recent years has been accompanied by a widening current account deficit – jumping as a proportion of GDP to 2.2 per cent or 50 per cent higher than five years ago. India's outstanding foreign debt has surged to $60bn with the debt service ratio doubling over the five years to 27 per cent.

The Government has allowed the budget deficit to swell as a proportion of GDP to over 8 per cent a year from 5 per cent in the late 1970s with a worsening impact on liquidity and inflation. Annual price increases of 8 per cent – though low by the standards of many developing countries – have eaten into the stagnant incomes of the rural poor who account for a half of India's 800m population.

Their resentment explains in large part Mr Gandhi's political troubles in this election year. Should Congress return to power, Mr Gandhi's policy planners say the priority would be to curb the budget deficit so as to diminish the inflation rate and improve the balance of payments. They would hope to minimise the squeeze on domestic demand by shifting a substantial amount of public investment from the budget to the private sector while further expanding exports.

This would require a continuing programme of liberalisation to improve industrial competitiveness. It would also mean the Government concentrating resources on programmes that had the greatest impact on the poor, including education, irrigation, rural development and welfare.

Though the Opposition is still vague about its economic programme, many of its leaders spring from the same centrist Congress camp as Mr Gandhi. There is no reason to think that their economic policies would be fundamentally different from the current Ministry of Finance view.

The real danger of an Opposition victory, and hence of a coalition government, is that government expenditure would continue to swell to appease the claims of competing coalition partners. The other risk is that faction fighting among the coalition members would undermine the efficiency of key agencies, like the railways, on which the smooth running of the economy depends.

Since the Second World War India is probably the Asian country that has most under-performed in relation to its potential. The still large inefficiencies in the public and private sectors mean that there remains a lot of slack to be taken up. Some believe that India will continue to remain a laggard. But on current trends, it has a chance to prove them wrong.

OBSERVER

Ferranti will meet again

■ As an example of shareholder democracy, yesterday's deferred annual meeting of the Ferranti group was a distinctly damp squib. Held in the doleful caverns of London's Millbank Tower – which also houses Plessey, another example of Britain's troubled electronics industry – the meeting mustered only about 15 shareholders. They were outnumbered by some 25 investment analysts and the same number of journalists.

When it came to voting, the shareholders looked even more thin on the ground, with eight agreeing to postpone the meeting again, and only one voting against. And even though Sir Derek Alun-Jones, the Ferranti chairman, faced some hostile questioning, it was all over in about 20 minutes. None of the big institutional holders in the company was visible and most clearly did not bother to attend.

Most of the questioning centred on the company's inability to spot the alleged £185m fraud in its ISC subsidiary until it was too late. Alun-Jones was told by one angry shareholder that he ought to admit responsibility and resign, while another queried possible golden handshakes if he went: "The question hasn't crossed my mind," the chairman replied.

Only one other Ferranti director spoke – Sir John Hoskyns, former head of the Prime Minister's Policy Unit and latterly director general of the Institute of Directors. The issue of resignations, he said, had been considered but rejected until Ferranti's problems were sorted out.

English guests

■ No-one knows quite how many English football fans there will be in Katowice at today's match with Poland, but there were 300 yesterday watching an under 21 international which the Poles lost3-1.

The local police are not taking any chances, and will have around 1,800 men out on the streets and in the stadium today. Under Uefa regulations, it is allowed to sell only 65,000 tickets, though it can hold far more.

"The English are our guests and we will treat them accordingly, but only as long as they behave like guests," was the message senior police officers had for UK journalists yesterday at a press conference.

Pre-match ticket sales have been disappointing with only around 12,000 sold so far. There were no pre-match sales for England fans.

Locals, however, expect the attendance to reach 25,000. The price of tickets is twice as high as for a league match, the weather is poor and the game is being shown live on television, and in any case the Poles expect their team to lose.

Tarzan on top

■ Michael Heseltine has been getting a lot of publicity at the Tory Party Conference. Yesterday BBC 2 even slotted in Tarzan's Greatest Adventure between the end of its live coverage and the start of Sir Robin Day's conference interpretation.

Soviet gaps

■ The Soviets have a problem with biotechnology, a knowledgeable visitor from Wales reports.

Dr Rodney Greenshields, a biotechnologist with his own small contract research laboratory in Swansea, has just led a party of British biotechnologists to the USSR under the auspices of a Department of Trade and Industry scheme called OSTEM (overseas scientific and technical expert mission).

"It wasn't a bird or a plane...it was the pound."

Greenshields says he was identified by leading Soviet experts as an entrepreneur with the activities and contracts they wanted. Seven of them visited him during the summer.

He learned how efforts to make animal feed by biotechnology had backfired when plants leaked bio-organisms that caused allergic reactions. As a result, Soviet citizens are strongly anti-biotechnology – more so than anti-nuclear, in spite of Chernobyl, Greenshields says.

Now the Government wants to use biotechnology for health care, as in the West. There is talk of joint research and development programmes, jointly-owned businesses and western investment in Soviet start-up companies.

The 10 day visit included the Soviet "bio-city" of Poushchino, south of Moscow, where 2,000 scientists are spread among several research institutes. Greenshields' verdict on the science is "good but not as imaginative as ours – we tend to look further ahead."

More striking, he says, is a biotechnology pilot plant built in Moscow using western technology, complete with the highest security against leaks. They simply don't know how to use it, and are offering joint ventures to get it running. Monsanto is taking the bait.

Dial 112

■ A new common European emergency telephone number is on the way. By 1992 if you want police, fire or ambulance in any European Community country, you will be able to get them by dialling 112.

A statement from the European Commission said yesterday that a group of experts had confirmed that such a system was technically feasible, though for the first few years the new number may co-exist alongside current numbers like 999.

The experts group was set up in response to demands from the European Parliament. According to the Commission, all that is now need for the system to be installed is a political commitment.

New wine

■ A friend has just bought a bottle of wine from a mini-supermarket south of Rouen. It bears the following curious label: "Rochdale, Vin de Table, Marque Déposée,12 deg. Mélange de vins de différent pays de la Communauté Européenne. Mis en bouteille par CN à F76240 Bonsecours."

This is all very puzzling. Rochdale is in Lancashire; Bonsecours is a suburb of Rouen: neither place has a long-established tradition of wine-making. Has Lancashire launched into the wine business? Is Rouen trying to cash in on the cachet of British wine? Or is this a new way round the Community restrictions on vin ordinaire from the Mediterranean, by passing it off as a Northern wine?

Or perhaps there is some other hidden joke?

Andrew Taylor reports on the outlook for the UK construction industry

In the shadow of the cranes

A US securities analyst once remarked that if you could see more than a dozen construction cranes from your office window you were probably watching the start of the next building recession.

He argued that construction typically reaches its peak just as the economy is about to turn down. The very pace of building creates too many offices and shops which no longer have sufficient tenants and customers to fill them.

Industrialists can very quickly switch off investment plans when economic conditions worsen.

This rather disconcerting view of the cyclical nature of construction is pertinent to the situation facing a UK building industry which for a large part of the 1980s has been among the fastest-growing in the world.

Just on the basis of the crane count *viewed from the Financial Times' new headquarters overlooking the City of London*, Britain is heading for the first fall in construction output for eight years.

Higher mortgage rates have already reduced sales of homes by half in large areas of southern England. Last week's rise in base rates will further discourage investment in factories and offices.

Sir Clifford Chetwood, chairman and chief executive of Wimpey, one of the country's largest housebuilders and a big property developer and contractor, says the increase is a *serious blow to housebuilders.*

"It will not have an immediate effect on general construction as order books are very full and will take 12 to 18 months to work through. Construction output however could be seriously reduced in 1991 if interest rates remain at this level for long."

Construction companies, many of which have large housebuilding operations, are worried that investment in *commercial and industrial* development will fall before the housing market recovers and before expected big increases in UK spending on roads, water and other infrastructure start to come through.

Yet contractors in Britain have seldom been busier. The dust and grit thrown up by huge construction tracks in the City of London is matched by that created by similar lorries blocking the streets of other British cities. The crane count, proportionately, is as high in Birmingham, Manchester and Leeds as it is in London.

UK construction output, despite a sharp fall in private housebuilding, rose during the first six months of this year by more than 5 per cent, after adjusting for price inflation. Private commercial *development, mainly offices and* shops, was 30 per cent higher in April, May and June than during the corresponding months last year.

Construction orders have remained surprisingly high although the rate at which contracts are being awarded has slowed.

Figures published last month by the Environment Department showed private commercial orders won by contractors in Britain fell by 17 per cent in May, June and July compared with the previous three months. Orders, however, were still 2 per cent higher than during the corresponding three months last year.

What appears to be occurring is that new orders for office construction in London have slowed as rents in parts of the capital, including the City, have peaked. A recent study by Jones Lang Wootton, one of Britain's biggest commercial property agents, showed starts made on office construction in central London had fallen by 29 per cent in the *first six months of this year.*

Office construction in the provinces, where rents are still rising sharply, is continuing full tilt. There has been no slackening in the rate of orders.

The prospect of offices in central London failing to find enough tenants to fill them is likely to lead to schemes presently in the development pipeline, being postponed or cancelled. Neither can provincial office markets expect to remain immune from economic and high interest rate pressures.

These have already taken a toll on British housebuilders. One publicly-quoted housebuilder, Kentish Property, has gone into receivership after sales of flats dried up on a development in London's former docklands. Sales are also becoming harder to achieve further north although the housing market in Scotland remains strong. Housebuilders in Scotland have even reported shortages of bricklayers and carpenters.

The chart shows how sensitive investment in construction is to the health of the economy. Rises and falls in all areas of construction output since 1960s have closely mirrored movement in Gross Domestic Product.

The value of UK construction output last year rose to a record £40.55bn as British GDP increased by 4.5 per cent. British GDP this year and next is forecast to grow by about 2 per cent per annum, less than the half the rate of growth achieved in 1988.

Construction cycles, have also moved very swiftly from high peaks to deep troughs. This was best seen in the mid 1970s and early 1980s when a large number of UK contractors and housebuilders went into receivership or were taken over. Hundreds of thousands of construction jobs were axed *during these periods.*

Contractors before the latest rise in interest rates were forecasting that the next downturn in construction activity would be much less pronounced than in the 1970s and early 1980s. They argued that orders books were sufficiently full to tide them over until spending on water and roads picked up.

R.M. Douglas, a medium-sized Midlands-based contractor says the rate at which contracts were being awarded before last week's interest rate hike was only about 5 per cent below the peak reached during the first few months of this year. The value of its order book had risen by more than a third to £260m in the past year.

Douglas, in joint venture with Turner Construction of the US, was recently awarded *the contract* to build Honda's £300m European car assembly plant at Swindon, Wiltshire. The contract to design and build the plant is thought to be worth about £70m.

Still to be placed are contracts to build car production plants for Toyota at Derby and at Shotton, in Wales. Total investment in the plants, including fitting out, will be about £850m.

Very large projects, like the Channel tunnel and Canary Wharf, the massive office development being undertaken by Olympia & York in London's docklands, should also help underpin workloads during the next 18 months.

Contractors hope that by then housebuilding will have recovered and that the Government will be looking to stimulate demand and encourage economic growth in the run-up to the next election, embarking on a major spending programme on motorway and trunk road improvements at an expected cost of £12bn during the next decade.

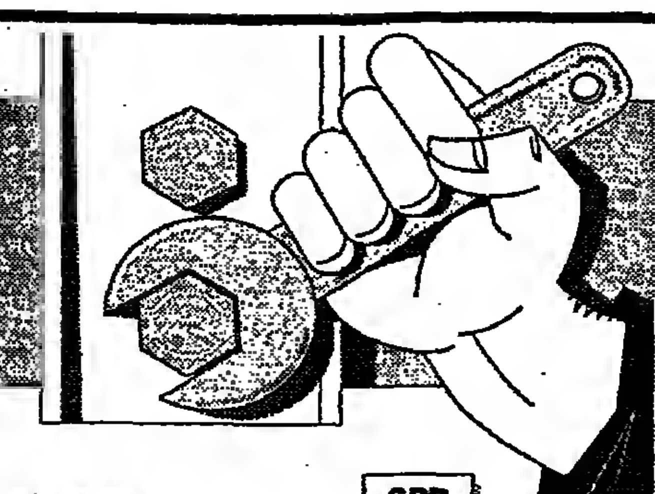
The privatisation of water is also expected to release a huge backlog of investment which in previous years has been restricted by public spending restraints. Investment in construction by water companies over a decade has been forecast at just under £20bn.

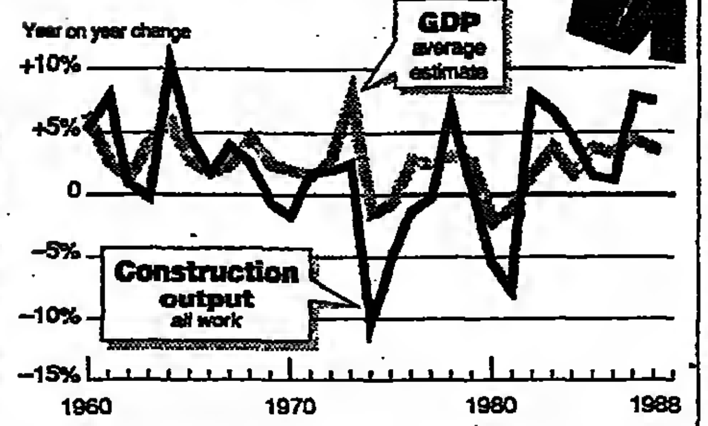
Mr Malcolm Brown, construction analyst for stockbrokers *James Capel, says: "The* momentum in new commercial building work in the provinces, the long term commitment of overseas manufacturing companies to *establish* bases here in advance of 1992 together with a stable public sector workload firmly underpins output over the next year.

"High interest rates as corporate profits come under pressure, however will dent confidence in industrial building. We would anticipate orders beginning to fall during the next few months and this could lead to a small fall in output in 1991. "Longer term projects such as Canary Wharf have a strong forward momentum. Current interest rates however must be a powerful disincentive to new provincial office building projects."

Key factors over the next few months will be how much cash the Government intends to release for infrastructure projects as a result of the Autumn's public spending round; the speed with which private commercial investment *declines and whether developers* decide to cancel or delay orders in the face of higher interest rates.

Previous experience has shown that winter can come very quickly to the construction sector when the economy cools.





The Uruguay Round

Time for a move to centre stage

By Gustav Ranis

This spring the major trading conntries reached agreement in principle on some of the issues which had caused December's meeting in Montreal on the Uruguay Round to end in official deadlock. But neither the artificial hreakdown in Montreal nor the papered-over agreement in Geneva really matter. The basic problem remains whether these negotiations can be moved off the back burner of the internatiooal economic agenda. As long as they stay there, it will be very difficult to solve the kay balance-of-payments, exchange-rate and less-developed-countries (LDCs) problems which currently hold the attention of the leading players.

Moch has changed during the past couple of decades. Economic dominance which once made it easy for the US, not only to preach, but also to *practise multilateralism* in trade has yielded to e multi-polar world, with ample *Lebensraum* having to be accorded to et least Japan and tha east Asian nawly industrialised countries (Nics), on the one hand, and to Europe – especially after 1992 – on the other.

But, in epite of greater exchange rate flexibility and Group of Seven policy co-ordination, macro and trade imbalances persist, leading to calls for managed trade and a bevy of protectionist actions, some within, but most quite outside Gatt rules.

While official snpport for "multilateral free trade" remains undiminished et all the economic summits, everyone also understands the not-so-veiled Super-301 threat featured in the US Trade Bill of 1988. This encourages e unilateral declaration of "unfair trade" whenever some bilateral imbalance or some industry's complaints find sufficient political support.

Current mutterings in the *corridors of power* are all about additional free trade zones on the US-Canada model, presumably as a bargaining tool *vis-à-vis* Japan or "Fortress Europe" but just as likely to become a hardened plurilateral feature of tha overall landscape. The biggest obstacle to reversing these trends via a successful Uruguay Round is the lack of appreciation of the clear link between the future of the international trading system, which continnes to induce yawns, and the harmonisation of exchange rates, monetary/fiscal policies and LDC dabt where most of today's scarce official euergies are being expended.

The still largely unrecognised basic fact is that it will be extremely difficult to solve both the US's and the Third World's debt problems simultaneously in the absence of progress on trade liberalisation.

The recent Brady Plan-related softening on Third World debt relief was undoubtedly based on the recognition that the North needs resnmed growth in the South for its own export and financial health. But what about the South'a need for the reversal of current neo-protectionist trends?

Even if the US were able to adjust unilaterally and Japan's surpluses were freed to flow South, tha developing world needs open markets to repay *its debts*, old or new. There is little point to IMF/World Bank structural adjustment packages, which invariably include the advice to liberalise trade, if developed country markets continue to close.

The same holds for southern agricultural productivity increases in the face of a subsidy acramble in the North. Clearly, not only today's Nics bnt also the world's near-Nics and its would-be Nics must be seen as a *necessary part of any* global solution. Otherwise they inevitably become part of the problem.

Luckily, there are indeed bargains waiting to be struck in the Uruguay Round if linkage can be carefully exercised within and across the various issues being negotiated. For example, within agriculture, the potential benefits for both developed and developing countries via a gradual *reduction of subsidies, followed* by a reduction of trade barriers, are being increasingly recognised. Within services, there are the banking and insurance dimensions of special interest to the North but also the construction, guest-worker and processing-zone arrangements of special interest to the South.

Even in the intellectual property and investment areas – viewed by many in the North as more crucial for determining the ultimete fate of the Uruguay Round than agriculture – the Sonth also has legitimate concerns abont multinational company restraints on trade, the use of patents and other code-of-conduct dimensions which it can bring to bear at the table.

But bargains must also be struck across issues (or sectors), and linkege applied, because only in this fashion – by holding agreements in any one area hostage until everything else is settled – can sufficient exporter interests be mobilised to counter the ever-present pressures from domestic producers.

For example, "special and differential" treatmeot, which provides relatively little benefit to the upper tier of develop*ing countries* but a protectionist excuse to the developed, could be gradually traded off against the jungle of extra-Gatt non-tariff safeguards, including voluntary export restraints, orderly marketing arrangemeots and, ultimetely, even the nefarious Multi-Fibre Agreement. Many other potential deals of this kind could be cited.

It must be conceded that, in spite of all the sabre-rattling on the trade front of late, from the threateoed proliferatioo of bilateral free trade agreemeots et the mecro level to the spread from pasta, computer chips and *hormones* at the micro level, we have thus far seen a consistent willingness to step back from the brink.

But a slow "cold war" drift isn't good enough and I doubt whether we will get real forward motion if these oegotiations are not accorded centre stage. The political economy problem has become too severe for solutions to be left to the interaction of lobbyists and bureaucrats. Higher level attention needs to be focused on the Uruguay Round over the next 18 months if we are to avoid letting failure drag us into a "hot war" nobody wants and nobody can afford.

The author is Frank Altschul Professor of International Economics at Yale University.

LETTERS

US model for the future of British education

From Dr David Blanchflower, Dr Andrew Clark and Dr Andrew Oswald.

Sir, Your editorial "Expanding the universities" *(October 3)* calls on Britain to change from narrowly specialised three-year degrees to longer and broader courses, and to incorporate elements of the free market into education. It is natural to ask what this philosophy would look like in practice. We can offer one answer.

- A degree course will last four years.
- *Every student will spend* at least 12 per cent of his or her time on each of (a) the sciences; (b) the humanities; and (c) the *social sciences.*
- Every student will become proficient in a second language.
- Every student will take at least one course which focuses on non-western culture.
- Students will accept as routina that they will own *their own computer*, be linked through a central network to the computer of every student and teacher in the university, be able to deliver essays electronically and have a sound grasp of word processing and graphical display software.
- Students will pay £14,000 per annum, paid by a mixture of parental support and government assistance.

We should be happy to show any English visitor a vibrant campus of just this kind. It is impossible to be sure, but our guess is that this is the future.

David Blanchflower,
Andrew Clark,
Andrew Oswald,
Dartmouth College,
Hanover, New Hampshire

District councils and waste recycling

From Dr Bill Cook.

Sir, Your article "Industry calls for new approach to recycling" (October 2) misleads. Bottle banks have *always been sited* on well used routes, whether in a supermarket car park or on a street. It is, therefore, erroneous to include the cost of fuel in bottle recovery.

It is true that we in Britain do not yet have enough bottle banks for people to bank their used glass efficiently. The Government is now auggesting that the district councils should organise both waste collection and disposal.

British Glass strongly backs this move to lay both the responsibility and the benefits *of economic waste disposal* firmly at the door of the district councils. They and their rate payers will quickly realise the benefits of pntting ont more bottle banks, and bottle bankers will have no need to drive around the country in their cars looking for them.

Bill Cook,
Director General,
British Glass,
Northumberland Road,
Sheffield

Teacher shortfall worse than reported

From Mr Roger A. Darke.

Sir, I read with interest the paragraph concerning Devon in "Teacher shortfall 'only 1 per cent of total'" (FT, September 22). Somebody, somewhere, is misrepresenting the facts.

I am a governor of a large First School in Exeter which has a permanent vacancy for a science teacher. The job merits a grade "A" allowance and has been advertised twice. On neither occasion have more than six candidates applied. The services of a temporary teacher mean that the school has a teacher for each class of children. It is, however, without a science co-ordinator.

Tha Devon authority has had, and known about, a permanent vacancy in one school since Easter this year. How many other vacancies are going unreported?

Roger A. Darke,
Yenton,
41 Wonford Street,
Exeter, Devon

Japan's success in D-Rams due to marketing skill

From Phillip Oppenheim, MP.

Sir, I refer to Jürgen Knorr's guest column "D-Ram dumping threatens users too" (October 5). Mr Knorr's plea for EC member countries to endorse the Commission's agreement with Japanese D-Ram memory chip producers to raise their prices in the EC, together with his claim that higher prices will actually benefit semiconductor users, is a shameless piece of special pleading.

One would expect Mr Knorr – as president of the European Electronic Component Manufacturers Association – to put his industry's case and to claim that Japanese producers have been "trading unfairly." But one might *also have* expected the semblance of an argument to support his claims.

There is no evidence that the Japanese have sold D-Rams at below cost, though I accept that the EC's lopsided dumping legislation is capable of producing such a verdict. Japanese semiconductor manufacturers have generally maintained, in their home market, prices that are lower, not higher, than overseas. Their dominance is the result of efficiancy and marketing skill, not "unfair trading."

A few examples. Japanese manufacturers beat their US and European rivals on to the market first with 64K, then 256K and more recently with 1MB D-Rams. Earlier this year, Japanese semiconductor makers announced investment plans totalling Y600bn (£2.75bn) – way in excess of US and European investment *plans combined. These are the* real reasons why the US and European D-Ram industries have almost been wiped out.

Nor, as Mr Knorr suggests, has Japanese dominance harmed western users. On the contrary, US chip consumers lobbied hard against the 1986 Japanese Semiconductor Accord which placed a floor on D-Ram prices in the US. It is ironic that at that time, the EC Commission complained that the US agreement would also *push up prices in Europe.* Now, despite encouraging signs that the new Commission was a little more liberal, it proposes to do exactly the same.

No doubt Mr Knorr's members, of which the principals are either huge, state-controlled companies, or have received heavy state subsidies, will do well out of the EC's proposed pact. But the protection afforded to them will make the rest of us a little poorer. It will also bring the prospect of "fortress" Europe, or, rather, "ghetto" Europe, a little closer.

Phillip Oppenheim
House of Commons

Politics in Kashmir

From Mr Farooq Mir.

Sir, In his articles "Kashmir: dilemma in paradise" (May 6) and "Violence and crime stalk Indian politics" (September 14), David Housego is right to note tha increasing bellicosity of Indian politics and Kashmiri dissatisfaction with the state assembly elections of 1987. He does not, however, emphasise enough the genuine grievances felt by many Kashmiris.

With the exception of 1977, all other state assembly elections have been as suspect as thosa of 1987. "The disappointed expectations of tha young" referred to by *Mr Housego* include a rate of unemployment which has risen to an alarming figure. Central government "mishandling" of the situation in Kashmir would be better expressed as true repression. Not all struggle for human rights and against poverty in Kashmir ahould be interpreted as the nurturing of pro-Pakistan sentiment. The head of the Sunni community, Mr Maulvi Farooq Mirwaiz, is quoted as saying "the problem is taking on a Punjab-like tone." This is unfair. Punjab is part of India; Kashmir has never accepted its status as part of the Indian federation.

If some Kashmiris have taken up the armed struggle, their decision to do so has followed years of pacifism during which their legitimate demands went unheard. Only some form of compromise can now permit the centre to ease the tension in the area. The best starting point would be fair and proper elections to name responsible deputies to the state assembly and to parliament.

Farooq Mir,
38 Mere Road,
Erdington,
Birmingham

FINANCIAL TIMES
Wednesday October 11 1989

E German leaders signal readiness to discuss reform

By Leslie Colitt in East Berlin

EAST GERMAN Party and Government leaders in Leipzig and Dresden indicated yesterday that they were ready to discuss political reforms with the opposition in the wake of a peaceful demonstration by more than 50,000 people in Leipzig.

Talks also began in East Berlin between the Protestant Church and party officials aimed at defusing the atmosphere in East German cities where a wave of pro-democracy demonstrations has led to violence and mass arrests.

Bishop Gottfried Forck of the Berlin-Brandenburg Church led Church leaders in the talks with the party in East Berlin. Earlier, the Bishop called on the leadership to begin "clear and credible" steps toward a constitutional state and democratic socialism.

In Dresden, where there have been demonstrations for the past five days, Mr Wolfgang Berghofer, the Mayor, said all demonstrators who had been arrested but who had not engaged in violence, would be released by yesterday evening.

At meetings held in Dresden churches late on Monday, 20 opposition members who held talks with Mr Berghofer said he also came out in favour of "genuine elections" and greatly liberalised travel.

He was handed a nine-point catalogue of demands which included the legalisation of the main opposition group, New Forum. But the East German Party newspaper, Neues Deutschland, showed no sign that the leadership had altered its position.

It attacked young demonstrators as "rabble" in two pages of highly coloured reports from cities hit by protest demonstrations. The hard-line coverage indicated a possible split between the leadership under Mr Erich Honecker and local officials.

Opposition members suggested it might also be a tactical move by the hard-pressed party leader in the face of growing popular unrest. Ms Bärbel Bohley, a founder of New Forum, said in East Berlin that the "next few days" will show whether an understanding could be reached with the authorities.

She noted that the opposition would insist on being included in talks with the authorities. "It would not be good if only the Church talks with them," she cautioned.

Three district Party secretaries in Leipzig said in a meeting with Church officials on Monday that they would strive with "all their might" to achieve a dialogue between the state and society. Local Party officials in other parts of the country also spoke out publically in favour of an open discussion about long suppressed problems.

The demonstration on Monday evening in Leipzig was the largest single opposition protest in East Germany since the 1953 uprising and passed without incident. Security forces remained well in the background and a church official in Leipzig, Dr Rainer Gähler, indicated this was the result of talks with the local authorities.

Homesick refugees, Page 2

Wind from East blows Bonn off course

By David Marsh in Bonn

THE West German Government is becoming increasingly worried that the rapid changes in Eastern Europe are complicating efforts to keep its policies towards the European Community on an even keel.

In particular, Chancellor Helmut Kohl, together with Mr Theo Waigel and Mr Hans-Dietrich Genscher, the Finance and Foreign Ministers, will have to decide within the next few weeks whether to bow to a French wish to accelerate the move towards European monetary union (EMU).

Bonn officials say that a West German working party on EMU has left open the question of whether a full inter-governmental conference to decide the path towards monetary union should he convened before or after the general election in December next year.

The French Government is pressing for the conference of EC member states to take place as soon as possible after next July 1 – the time set for the next stage towards monetary union.

Bonn, however, is worried about convening a key government conference on the subject during the politically sensitive run-up to the general election.

Such a gathering could lend strength to West German opponents of the EC who say that Western European integration is barring the path to unity with East Germany.

In the eyes of politicians and *public opinion this step suddenly* seems more feasible after the refugee exodus and growing calls for reforms in East Germany during the past few weeks.

The Bonn Government is concerned that the growing attraction of closer links with Eastern Europe – including the reformist states of Hungary and Poland as well as East Germany – is diverting attention from the political goal of Western European union.

"A fundamental psychological change has taken place," said one Chancellery official, referring to latest indications of support on both left and right for the goal of German unity to be given precedence over that of Western integration.

He singled out a recent article in favour of unity by Mr Rudolf Augstein, the left-leaning publisher of Der Spiegel magazine – a man who in the 1970s was one of the firmest supporters of recognising East Germany as a separate state.

The West German working party on EMU, grouping officials from the Chancellery, the Finance, Economics and Foreign Ministries, and the Bundesbank, was set up in August to try to harmonise Bonn's internal position on monetary union.

"The 'if' and the 'how' is decided – but the 'when' remains open," said one official close to the discussions.

The question is likely to be decided during preparations for the EC summit in Strasbourg in December. The next regular Franco-German government consultations in November will be crucial in working ont a consensus between Paris and Bonn on the issue.

Mr Kohl yesterday tried to balance the conflicting priorities in a speech in Frankfurt.

He said the road towards political union in Western Europe was also in the interest of the people in Eastern Europe "in the hope that they, one day, will be able to participate in free self-determination in the work of freedom."

He reaffirmed that "the European Community is no closed institution. It is open for all free people of Europe."

However, recent statements by Mr Kohl and by Mr Genscher in favour of the EC opening up to countries in Eastern Europe have found disfavour in Brussels.

Mr Genscher has come out strongly in favour of eventual EC membership, first for Austria (in the mid-1990s) and then for countries like Hungary.

His attempt to bring the EC on to a Central European-facing path adds up to a bid to force the pace of change more quickly than London or Paris are likely to want to accept.

Greece to hold fresh elections in November

By Kerin Hope in Athens

MR Christos Sartzetakis, the President of Greece, yesterday said elections would be held on November 5 after failing to persuade political leaders to forming a new coalition government.

His next task will be to appoint a senior judge as head of a caretaker government to supervise the poll, the second election this year. The leading cootender is Mr Yiannis Grivas, 66, president of the supreme court.

Mr Sartzetakis will also have the final responsibility in appointing cabinet ministers, to be sworn in later this week.

Although there are political disagreements over who should be included in the caretaker administration, the elaborate constitutional process of exchanging mandates among political party leaders has gone remarkably smoothly since Mr Tzannis Tzannetakis' Conservative-Commnnist coalition government resigned last week.

Campaigning in earnest will start next week, hut Mr Andreas Papandreou, the former Socialist Prime Minister who lost power in tha June election, has made an early start with a mass rally on Monday night at an Athens soccer stadium.

Mr Papandreou, facing trial after the elections on corruption charges, told a cheering crowd of more than 70,000 supporters that the right-left coalition "has been leading us to division through persecution because of so-called catharsis, which they turned into penalisation of political life, without offering a shred of evidence."

Five former Socialist cabinet ministers have been charged with Mr Papandreou for alleged involvement in financial scandals and illegal phone-tapping.

Dozens of government officials, who were sppointed during the Socialist administration, have also been indicted on frand charges in judicial investigations of other scandals during Mr Papandreou's eight years in power.

European court orders UK to suspend new law on fish quotas

By Tim Dickson in Luxembourg.

THE UK Government was yesterday ordered by European judges to suspend part of a key law aimed at protecting Britain's hard-pressed fishing fleet from Spanish "poachers".

The move seems certain to provoke a new conflict between London and Brussels and raises fundamental questions about the pre-eminence of European over national law.

Yesterday's order is essentially a victory for the European Commission, which asked the European Court of Justice to restrain Britain from applying new nationality requirements laid down in section 14 of the UK's 1988 Merchant Shipping Act.

These came into force at the beginning of April this year, and stated that any boat wishing to join a new British fishing vessel register had to be at least 75 per cent owned by British nationals. Previously it was enough for boats to be owned by British registered companies.

The British Government introduced the legislation in response to the problem of "quota hopping," a practice by mainly Spanish vessels of registering as British boats to qualify for the UK's annual catch quotas allocated under the EC's fisheries policy.

According to the UK the flag of a ship is concerned with the nationality of a vessel, just as every member state is free to decide who are its owns citizens and who should be allowed to carry its own passport.

Yesterday's order from the court, which is an injunction pending the main hearing, found that there was a prime facie case to answer in respect of the right of establishment and the right to participate in the capital of companies as enshrined in the Treaty of Rome.

The president of the court also considered there were legitimate grounds for urgency in the application.

That is because a number of *the vessels in question – many* of which have taken up the matter separately in the British courts – might satisfy British registration conditions if nationality requirements were suspended.

The British government, which has recently drawn attention to its good record in implementing European court judgements, will be expected to comply soon, though there is no fixed deadline.

The economic impact of the court's decision on the British fleet, however, may be less than initially feared.

Elegant compromise, Page 34

Baker seeks to revive Mid-East peace talks

By Hugh Carnegy in Jerusalem and Nancy Dunne in Washington

MR JAMES BAKER, US Secretary of State, has suggested to the foreign ministers of Israel and Egypt that they meet him in Washington within the next two weeks in an attempt to break the stalemate over proposed Israeli-Palestinian peace talks.

Israeli officials said there had been intensive telephone contacts between Jerusalem and Washington in a bid to keep the peace process afloat since the Israeli coalition *turned down an Egyptian offer* to host Israeli-Palestinian talks in Cairo. A formal three-way meeting in Washington, however, is regarded as likely only if there is some prior understanding on a positive outcome.

The main obstacle thus remains the objection by Mr Yitzhak Shamir, tha Israeli Prime Minister, and his hard-line Likud Party to any involvement by the Palestine Liberation Organisation in naming the Palestinian delegation to any talks with Israel.

Egypt and the Palestinian side insist that the Palestinian delegation must at least be sanctioned by the PLO.

While Mr Shamir has shown no sign of softening his stance, officials said a key consideration for him was a visit to the US he is scheduled to make in mid-November. They said he would be anxious to avoid a complete breakdown in the peace process beforehand which would sour his trip.

Mr Baker has acknowledged being "very actively involved" in efforts to salvage an Israeli proposal *for elections in the* occupied territories.

The US initiative comes when Israel is seeking new money from Washington designed to settle Soviet emigrés in Israel.

Tha Bush Administration has not ruled out the new funding, but it has stressed that it opposes new settlements on the West Bank, where some of the emigrés would be sent.

Sterling loses value on foreign markets

Continued from Page 1

"too much attention to short-run output goals may lead to high inflation rates and rednced output growth over the long run."

This remark suggests that Mr Greenspan believes any move to bring down the value of the dollar may be at the cost of higher inflation. This provoked steady buying of dollars in New York and took pressure off the pound.

After a late recovery, sterling ended the day in London 2 pfennigs lower at DM2.9550. On the Bank of England's trade-weighted sterling index, which measures the pound's value in terms of a basket of currencies, the pound *fell* 0.8 to close at 89.0. Against the dollar, the pound lost 2.10 cents to $1.5580.

The dollar closed in New York at DM1.9075, above the important DM1.90 level, and Y144.45, which compared with an earlier low of Y142.45.

The Bank of England intervened in the foreign exchange markets several times yesterday, buying pounds in dollars and European Currency Units, but failed to halt sterling's slide.

Currency analysts said the Bank had probably accepted it could not stop the pound's fall, *but* acted to *smooth* its path.

Currency markets have also been unsettled by the recent suggestion from Mr Karl Otto Pöhl, president of the Bundesbank, the West German central bank, that he would like to see the D-Mark higher against other European currencies.

Analysts said that because of the importance financial markets attach to the influence of the Bundesbank, currency dealers took Mr Pöhl's comments as another reason to sell the pound.

Master of discretion amid Soviet crisis

Continued from Page 1

area where he thought ths Western central banks might indeed be able to give a few helpful hints: how to soak up a huge amount of excess cash in the economy with the use of government bonds and other long-term debt instruments.

Soviet economists calculate there is a monetary overhang of some Rs300bn ($500bn) in the economy, about Rs100bn of it "hot money" available for spending whenever anything is put in the shops.

"Clearly they have not been focusing on Western economic ideas, and are quite curious," he said.

"They are looking for any ideas which might be applicable to the special circumstances of the Soviet system" in transition from being a command economy to one with a genuine market.

He denied there was any discussion of Soviet hopes for membership, or even observer status, in international organisations like the IMF, the World Bank and the Gatt.

But at the end of it all, he did admit that he felt a bit awkward, striding into ths bastion of Communism.

"There was an odd feeling for me. If I didn't feel odd, I would be peculiar."

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	22	72	Dubrovnik	C	19	66	Malta	F	21	70	Rhodes	S	23	73
Algiers	S	24	75	Edinburgh	C	15	59	Manchester	R	13	55	Rio de J'o	C	22	72
Amsterdam	C	12	54	Faro	S	23	73	Manila	C	31	88	Rome	S	18	64
Athens	F	26	79	Florence	F	15	59	Melbourne	R	13	55	Salzburg	C	8	46
Bahrain	S	33	91	Frankfurt	C	11	52	Mexico City	F	25	77	San Francisco	S	11	52
Bangkok	R	31	88	Funchal	F	24	75	Miami	F	25	77	Seoul	F	17	63
Barcelona	S	21	70	Geneva	F	12	54	Milan	S	19	66	Singapore	F	31	88
Beirut		–	–	Gibraltar	S	23	73	Montreal	S	1	34	Stockholm	C	7	45
Belfast	F	14	57	Glasgow	C	14	57	Moscow	F	8	46	Strasbourg	C	11	52
Belgrade	C	10	50	Guernsey	C	14	57	Munich	F	19	66	Sydney	S	20	68
Berlin	C	9	48	Helsinki	R	9	48	Nairobi		–	–	Taipei	R	30	86
Biarritz	C	15	59	H. Kong	C	27	81	Naples	F	18	64	Tangier	F	25	77
Bombay	S	32	90	Innsbruck	C	8	46	Nassau		–	–	Tel Aviv	S	31	88
Bordeaux	C	17	63	Inverness	C	13	55	New Delhi	S	34	93	Tenerife	C	24	75
Brussels	C	11	52	Islamabad	F	33	91	New York	S	9	48	Tokyo	F	21	70
Budapest	R	10	50	Istanbul	S	28	82	Nice	S	20	68	Toronto	C	8	46
B Aires	F	25	77	Jakarta	F	31	88	Nicosia	S	26	79	Tunis	F	22	72
Cairo	S	34	93	Jersey	C	16	61	Oporto	S	23	73	Valencia	S	22	72
Cape Town	S	17	63	Jo'burg	F	13	55	Oslo	S	9	48	Venice	S	17	63
Caracas	C	27	81	Lima	C	19	66	Paris	C	13	55	Vienna	S	12	54
Casablanca	R	22	72	Lisbon	S	22	72	Peking	F	20	68	Warsaw	C	9	48
Chicago	C	8	46	London	C	15	59	Prague	F	11	52	Washington	S	7	45
Cologne	C	11	52	Los Angeles	C	17	63	Reykjavik	R	5	41	Zurich	C	9	48
Copenhagen	S	11	52	Luxembourg	C	9	48								
Corfu	F	22	72	Madrid	S	19	66								
Dallas		–	–	Majorca	F	20	68								
Dublin	C	14	57	Malaga	S	24	75								

Readings at mid-day yesterday

C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Computer hackers face jail sentences

Continued from Page 1

This offence will apply, for example, to a person who enters, or tries to enter, the computer system of a bank or financial institution with a view to using the computer to divert funds. Ths maximum penalty for this offence would be five years imprisonment.

A further serious offence will be intentionally, and without antbority, altering computer-hsld data or programs. The offence will cover the use of worms, trojan horses, viruses or logic bombs and will include both attacks on a particular computer and the putting into circulation of infected disks that eventually cause unauthorised alterations to computer material somewhere. The maximum penalty will be five years imprisonment.

Launching the report, Lord *Justice Beldam, chairman of* the commission, said that "far from being a technological youthful prank, backing creates serious difficulties for businesses. To declare hacking a crime should dispel the belief it is a harmless recreational activity."

Mr Richard Buxton, a member of the commission, defended the decision to make hacking a criminal offence on the grounds that it was necessary to send a signal that hacking was no longer funny or respectable.

The two more serious offences would make it easier for the problems to be tackled earlier.

The report makes it clear, however, that the new offences are *aimed only at people* who deliberately misuse computers.

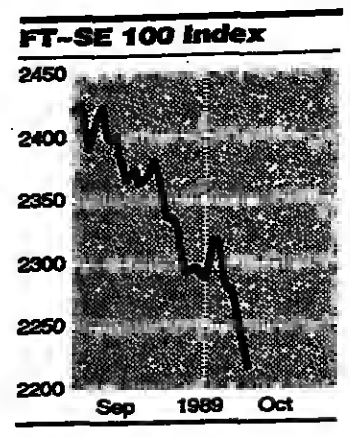
THE LEX COLUMN

Kicking the market when it's down

Another day, another decline: two pfennigs off the pound yesterday, and a 45-point turnround in the FT-SE. The equity market is still torn between the promise of devaluation and the threat of yet higher base rates. *Its depressed state* is best indicated by the reaction to a warning from the same BZW consultant who predicted the crash in July 1987, to the effect that the index is on its way back down to 1800.

The argument rests on the view that corporate profits must fall, or at best stand still for two years, if the Government is to control inflation. Certainly, the number of small company warnings is mounting – the shopfitting group Sharp & Law became this week the first quoted casualty of the retail squeeze – but dire predictions will only be justified when the blue chip stocks start to follow suit. However, the classic counter-argument – that about 45 per cent of Footsie profits come from overseas, giving protection against UK economic decline – might be partly undermined by some of the recent gloomy corporate announcements in the US.

At some point the market will benefit from the effect of the pound's fall on exports and the translation of earnings. But it is still not clear how far the Chancellor is prepared to let sterling slide, or whether another rise in base rates would make any difference in currency markets. Until the equity *market feels confident* that Mr Lawson is back in control it will be only too ready to listen to the gloom merchants.



Ferranti

Yesterday's 6 per cent *fall* in Ferranti's share price might seem an odd response to confirmation of possible takeover. But in stressing how long it would take to check Ferranti's books, British Aerospace and Thomson were playing down the threat of a rival offer. Nor is a bid likely to be generous; if the Rover deal were a guide, Ferranti shareholders would end up paying BAe.

The partnership looks nicely judged politically: Thomson to appeal to the Ministry of Defence as a rival supplier to Marconi, and BAe as lead manager to soothe Tory sensibilities over the involvement of a French nationalised company. Again, the outlook for Ferranti depends a good deal on getting the European Fighter radar contract. BAe, as a major supplier to the EFA, will have as good an idea as any of the internal politics, while Thomson supplies the radar for the French Rafale fighter.

Another bidder could still emerge; a US candidate, for instance, given recent UK purchases of US defence contractors. But the risks for an outsider would be formidable. If BAe and Thomson are the only bidders, they could virtually name their price; shareholders would be hard put to challenge their valuation, and would not relish the alternatives of a rights issue and sticking with present management.

News Corporation

If Mr Rupert Murdoch's talk about buying MGM/UA was the first sign of an end to this year's sharp re-rating of News Corporation, yesterday's profits warning may have knocked *it dead. It is not simply that* investors had apparently been reckoning on net profits of around $A550m, only to be told they could turn out below 1989's $A497m. The deeper worry may be that there is no one big problem, but several medium-sized ones, aside from Sky's losses.

The obvious black spot is Ansett Airlines, given market share losses and the Australian pilots' dispute. With the industry-wide growth rate of UK press advertising expected to halve in 1990, it is not surprising that News Corp may not repeat last year's 37 per cent growth in its newspapers' gross cash flow. The wild card though could be Twentieth Century Fox: not so much in its TV operations, as in the film production arm, where it has not repeated 1988's big successes.

As for debt, the annual report showed gross cash flows before tax and depreciation of $A1.63bn, covering $A985m of interest. News Corp could certainly manage a $1.4bn bid for MGM/UA, and the Sony/Columbia deal made the price look more reasonable; but if his rival Qintex drops out and Mr Murdoch does go ahead, yesterday's 55c drop in News Corp's share price to $A15.85 may be only a starter.

ADT/BAA

Among the various minority stakes taken lately by ADT, the most intriguing must be its 4.2 per cent of BAA. Gatwick and Heathrow are not about to fall under the control of a company based in Bermuda. But there is no doubt that BAA is going through a bad patch, having lost a managing director and facing the threat of official inquiry into alleged monopoly abuse. So why should a company which thrives on the absence of official controls invest in one whose fortunes can be transformed by government whim? At least ADT can claim to know something about the services industry; and the whiff of a predator may just encourage the next generation of management at BAA, if not the present team, to do something about unlocking its real asset value.

McCaw/Lin

The battle for domination of the US cellular phone industry is becoming increasingly Byzantine. McCaw's response to BellSouth's agreed deal with Lin Broadcasting is even harder to value. It is offering more cash than BellSouth, but Lin's shareholders are left with a minority stake in a smaller combination. However, McCaw has invented the private market value guarantee, a rather verbose way of promising that shareholders will not lose out *on the control premium, as* seems to be the case with the BellSouth bid.

McCaw has lined up $8.5bn of financing, which suggests that this latest move is not going to be the last. Measured by the industry yardstick of price per pop, the $293 price McCaw is putting on Lin is top of the range; *rising* interest rates and a slowing economy increases the worry that US cellular auctions are going to result in casualties eventually. For BT, which stresses that it is not the lender of last resort to McCaw, the deal is reasonably good news; the partial offer means that McCaw will be less highly leveraged and less in need of extra BT cash if things start to go wrong. Meanwhile, the price being put on Lin once again makes Racal Telecom look extraordinarily cheap.

SECTION III
FINANCIAL TIMES
SURVEY

Although high interest rates have led to a more prudent attitude by financial institutions, 1989 is the ninth successive record year for buy-outs. However, **Charles Batchelor** suggests the buy-out industry may soon be facing its first serious test.

Management Buy-Outs

Caution tempers the euphoria

MANAGEMENT buy-outs have had a difficult year in 1989. High interest rates have taken the shine off two of the largest buy-outs in the retail sector and forced the financiers to consider all new buy-out proposals with extra caution.

At the same time, 1989 has been an excellent year for buy-outs. The increased use of mezzanine finance – high yielding, high risk loans – has made possible an unprecedented number of high-profile public company buy-outs and buy-ins, including the purchase of the Gateway food group for a record £2.4bn.

The Gateway deal, which will lead to the disposal of large parts of the business, may herald a shift in the British buy-out climate towards the American-style leveraged buy-out, which depends on the sale of large parts of the business to repay borrowings. is

A number of recent buy-outs have depended more on the mergers and acquisitions expertise of City corporate finance teams than on the traditional skills of the venture capitalists and the specialist buy-out funds. What some deal-makers describe as the "cosy club" of venture capitalists and buy-out funds which dominated the buy-out scene for most of the 1980s has been broken up by arrival of the merchant banks and the US financial groups.

But alongside a small number of spectacular transactions the traditional buy-out community has been busy with scores of smaller deals similar to those which have transformed the ownership pattern of many British businesses.

Continuing high interest rates and the downturn in sectors such as retailing and housebuilding have led to a far more cautious attitude to buy-outs on the part of the banks, in particular. Buy-out activity has nevertheless continued at a high level. An estimated 300 deals valued at £5.41bn were finalised between January and mid-September this year compared with 400 valued at £5bn in 1988, according to accountants Peat Marwick McLintock.

Despite the reluctance of some institutional investors to support buy-outs of public companies because of what they see as a conflict of interest for management the numbers continue to rise. Apart from Gateway, buy-outs have been carried out at Magnet, the furniture retailer, for £629m, Charles Church, the housebuilder, for £104m, and Ryan, a coal company, for £70m.

Buy-out groups report no shortage of deals though they concede instead of now being able to wait for propositions to walk in the door they frequently take the first step in contacting chairmen to plant the idea. Mr Charles Gonzor of Phildrew Ventures, for example, calculates his team initiated more than half of the nine deals it has led this year.

A straw poll of leading deal-makers shows most expect the number of buy-outs this year to match or slightly exceed the numbers completed in 1988. They agree that the rate of increase of recent years is slowing down although by value the 1988 figure has already been exceeded in the first three quarters of 1989.

Some deal-makers see the downturn in sectors such as retailing leading to an increase in their deal-flow as cash-strapped companies are forced to make disposals by means of buy-outs. "Ours is a recession-proof industry," claims Mr Roger Brooke, chief executive of Candover Investments.

This optimism may turn out to be justified but there is no denying the buy-out community received several shocks in recent months. MFI and Lowndes Queensway, two retailers of home furnishings, have been forced to defer loan repayments and refinance themselves by rights issues. Syndication of the loan finance for the Magnet buy-out had to be halted by lead banker, Bankers Trust, while attempted buy-outs at Ward White, a DIY and motoring accessories retailer, and MCD, part of soft furnishings group Coloroll, both failed to get off the ground.

Buy-out specialists console themselves that the problems of MFI and Lowndes Queensway result from the impact of high interest rates on consumer demand rather than directly from the fact these companies are overborrowed. Most recent buy-outs have included arrangements to cap the maximum rate of interest which could be paid or swaps to convert floating rate loans into fixed rate borrowings.

If high interest rates continue for another year or so these arrangements, which usually last for up to four years, will start to run out, however, and interest charges will then increase sharply.

The problems of these buy-outs has nevertheless made the banks cautious in their lending. Not that British buy-outs have been excessively geared. They typically involve equity to borrowing ratios of 3 or 4:1 compared with 9 or 10:1 in the US.

But the combination of high interest rates and a buoyant stock market (which inflates vendors expectations of what a buy-out company is worth) have made it difficult to put together buy-out deals. Vendors are reluctant to agree a deal which values their company on a p/e of only 10, a sensible level when interest rates are around 16 per cent, when average stock market p/es are around 13. "You simply can't do the maths," explains Mr. Rodney Hall, head of GE Capital, a mezzanine finance specialist.

The only way for deals to get done is by increasing the equity and mezzanine elements of the transaction, which increase the risk exposure of the financier, or by accepting a lower rate of return on the investment. Investors are now, reluctantly, accepting returns of around 30 per cent compared to the 40 per cent which was common two to three years ago, says Frank Neale of Phildrew Ventures.

These conditions have meant some investors who were not seriously committed to buy-outs have withdrawn from the market. The flood of new arrivals on the buy-out scene up to the mid-1980s has now dried up.

Practically the only new arrivals on the UK buy-out scene over the past two years have been US financial groups. They have included fee-driven groups such as Wasserstein, Perella, which made an unsuccessful offer for Gateway, and mezzanine finance providers such as GE Capital.

Some of the new US entrants to the UK buy-out scene have been driven to look for opportunities in Britain by tougher conditions in the US leveraged buy-out market. Competition has grown fiercer in the US while the bitterly fought $25bn buy-out of RJR Nabisco has prompted a questioning of the economic value of buy-outs and calls in Congress for an end to tax-breaks for buy-out borrowings.

There are signs, however, that is not proving easy to transplant the fee-driven Wall Street approach to buy-outs to the UK as was initially thought and some of the recent arrivals are having second thoughts about the market potential in Britain.

What many of the US groups are hoping for is the creation of a more liquid market for mezzanine debt. Mezzanine lacks the liquidity of its US counterpart, the junk bond, though GE Capital, which provided £162.5m of mezzanine for the Gateway buyout, is attempting to make this available in bond form.

Barely has the buy-out become a familiar concept for British managers than it has been joined by the buy-in, in which an outside team of managers is brought into a company to revitalise its fortunes. Buy-ins carry higher risks than buy-outs because the new management is not as familiar with the company's problems. The buy-in specialists also report that it has not been as easy as they initially thought to find target companies.

Despite thesa drawbacks prospects for buy-ins appear good. Investors in Industry (3i), Britain's largest venture capital group, expects to complete between 60 and 70 buy-ins this year compared with 40 last year.

Britain's buy-out specialists have not only proved inventive at developing new opportunities for profit at home. They are looking increasingly to the Continent for new business openings.

Candover Investments plans to raise a buy-out fund in Germany and is also looking for a local partner in Italy. Candover already has affiliates in the Netherlands and France. There are now signs that Continental groups such as Munich-based Matuschka are starting to take the lead.

The buy-out community appears convinced that the problems that have hit a small number of buy-outs are specific only to the retailing and home furnishing sectors. However, if interest rates remain high and further sectors of the economy start to suffer, this analysis may prove optimistic. After nearly a decade of uninterrupted growth buy-outs could soon be facing their first serious test.

CONTENTS

Tables provided by Peat Merwick McLintock. Unless otherwise stated tables cover eight and a half months to September 15, 1989

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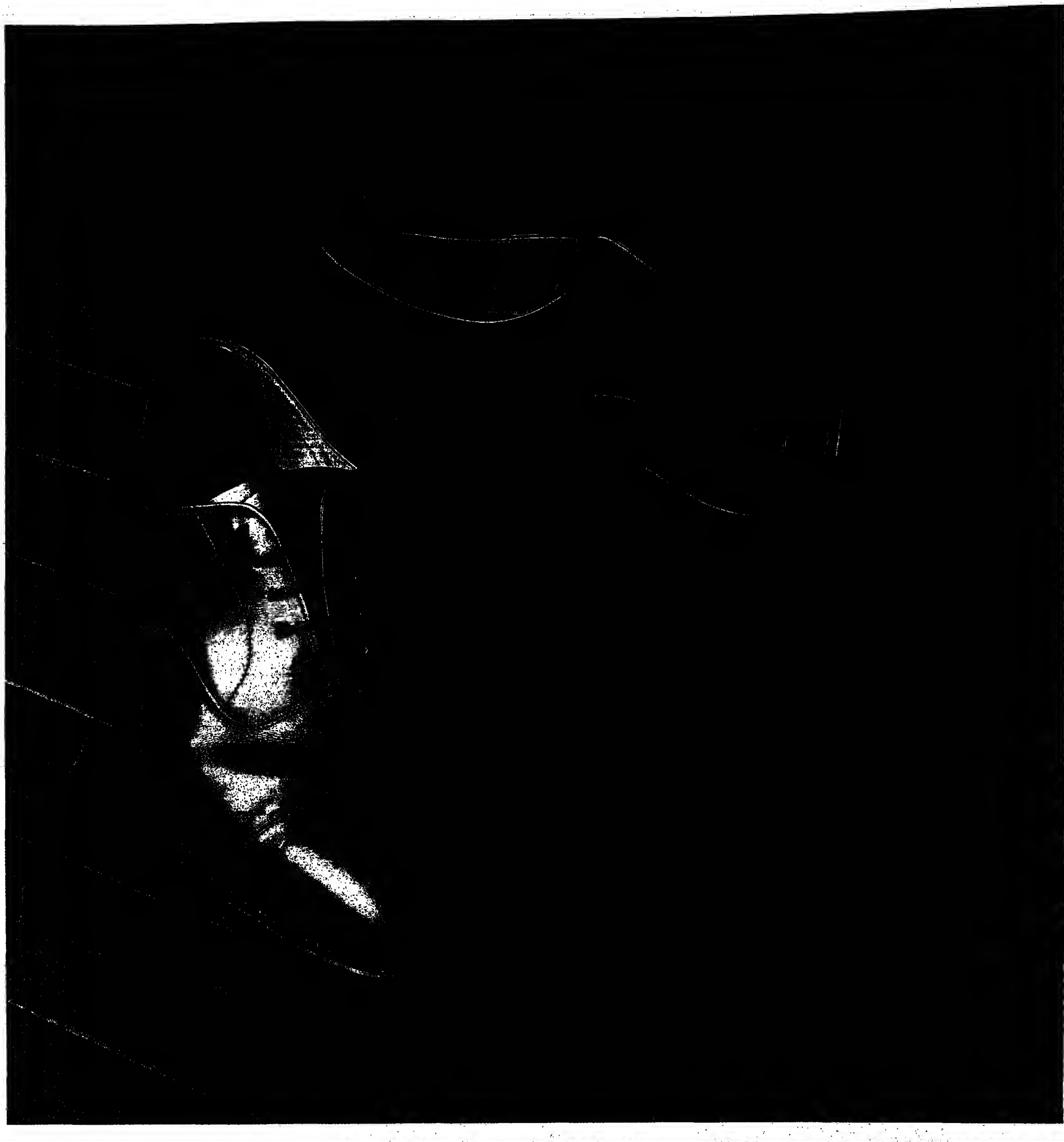

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MANAGEMENT BUY-OUTS 3

Charles Batchelor discusses methods of staging a buy-out

Careful planning crucial for managers

BUY-OUTS have grown in size and complexity over the past few years. Financing packages running into hundreds of millions of pounds and involving several different layers of funding are now almost commonplace. Even far smaller deals frequently involve sophisticated financial arrangements.

For a management team attempting a buy-out for the first time the task of negotiating a reasonable deal can appear daunting. In addition, the large profits which can be made by investors in buy-outs has led to stiff competition for the most attractive propositions.

Management teams must expect rival bids for their company from outside managers intent on staging a buy-in, from financiers willing to buy the company over the heads of the existing management and from trade buyers keen to fill a gap in their own product range.

Managers must therefore plan their buy-out campaign with care. They must seek good advice at an early stage from both the growing number of books and brochures on the subject and from their professional advisers.

Many buy-out approaches start with a visit to an accountant, though the managers would be advised not to go to the company accountant who cannot be expected to be impartial. Some accountancy firms can put the deal together themselves, including providing the finance, but most will refer the managers to a specialist venture capital company or buy-out fund.

The managers may be happy to accept the recommendation of their accountant but should be aware of the different buy-out specialists available. Not surprisingly the smaller buy-

The task of negotiating a reasonable deal can appear daunting

out groups will back the more modest deals of between £1m and £10m (though deals of less than £1m have also been done) while the larger organisations will not look at anything worth less than £10m.

A growing number of regional buy-out funds have come along in recent years and managers may find greater sympathy and understanding from a local fund than from a London-based organisation several hundred miles away. Investors in Industry (3i), the most active buy-out organisation in terms of the number of deals backed, has a network of regional offices as well as a City office handling the larger deals. However, funds tend not to specialise in particular industry sectors.

More important than any formal distinction between the different funds, though, is the *ability of the managers* to get on with the deal-makers. Unless the two sides hit it off they are unlikely to get through the months of sometimes tense negotiations which will be needed.

An advantage of working with professional buy-out specialists is the distance this places between the managers and the vendor who is also their employer. It is not easy for managers to negotiate their own independence with their boss. They may run the risk of the sack for suggesting the deal in the first place and if negotiations break down, their career prospects within the parent company may be harmed.

The use of a professional adviser takes much of the heat out of the negotiations and he will be less concerned about offending the boss. The adviser can also be realistic about pointing out the strengths and weaknesses of the company to be bought out. The managers themselves may be reluctant to criticise the operation they have been running.

The composition of the management team is also very important. It must contain a mix of management skills such as finance, marketing and production though a good team lacking one of these areas of expertise may be able to call on the buy-out investors to help fill the gaps.

The smaller the buy-out team, the better. The experts suggest five or six people as the largest practicable grouping. Any more than this and decision-making is slowed and the possibility of disagreements increases.

An essential of any buy-out is a business plan which explains the background to the deal and the managers' plans for the business. The managers may need to call on their accountants to help with the

Most important is the ability of the managers to get on with the deal-makers

detailed projections but buy-out fund managers warn against over-elaborate plans running into hundreds of pages. At least one buy-out fund has a cellar stacked high with rejected plans. Be comprehensive but at the same time keep it simple, the specialists advise.

The business plan must provide profiles of the managers involved and details of their experience. Crucially, the plan must show financial projections covering profits, cash flow and the balance sheet for at least three years. The man-

Beware of being saddled with an impossible burden of debt

agers must estimate their financial needs including the purchase price and the working capital needs of the business.

The managers should beware of saddling themselves with an impossible burden of debt but must raise enough funds to see the business through its early years without the need for an early and embarrassing refinancing.

The management team's own contribution to the funding may be sizeable in terms of their own financial abilities, though it will be small in relation to the total finance raised. Individual managers might typically be expected to provide between £25,000 and £50,000. The directors involved in Britain's second largest buy-out, the £718m purchase of MFI, the furniture group, put up an initial £60,000 each followed by a further £20,000 each in the recent refinancing.

For their investment the managers will get a disproportionately large share of the equity – ranging usually from 10 to 60 per cent and in some cases more. The managers should negotiate for as much equity as is reasonable but they should be aware that if they hold out for too much this may depress the price they are able to offer for their company. Management teams have lost out to rival bidders because they have been too greedy, some buy-out specialists warn.

Many recent buy-outs have involved "ratchets", a device for rewarding managers with a higher stake in the company's equity if they reach certain performance targets. Some buy-out funds have become disenchanted with ratchets, however, arguing they complicate matters if the company subsequently needs to raise extra finance. It may appear strange to a management team negotiating its own independence to start thinking about selling or floating the company but the investors will be basing their financial calculations on an "exit" in three to five years' time.

Many managers expect to float their company on the stock market but the most common exit route is a trade sale to another company. The managers must either be prepared to accept that they will once again lose their independence or plan an alternative – such as buying in the other investors' shares and remaining a private company.

However exhausting the buy-out negotiations appear, they are only the beginning of the process. Once the deal is completed the managers must show they can run an independent company without the benefit of head office to call upon when problems arise.

Leading Debt Arrangers

	Number of deals led	Total value £m	Average size £m
Nat West/County NatWest	31	641	21
Barclays/BZW	22	467	21
Bank of Scotland	18	305	17
Bankers Trust	17	1,356	80
Standard Chartered	16	891	56
Charterhouse/RBS	10	538	54
Midland/Samuel Montagu	14	303	22
Citibank/Citicorp	7	583	83
SecPac	7	220	31
Lloyds	5	64	13
Chemical Bank	4	1,430	358
S.G. Warburg	4	1,989	497
Credit Agricole	3	47	16
Den norske Creditbank	3	31	10
Kleinwort	3	105	35
Manufacturers Hanover	3	50	17
Scandinavian Bank	3	47	16
3i	2	12	6
Bank of Boston	2	28	14
Continental	2	55	28
Salomon	2	29	15
Toronto-Dominion	2	36	18
Others	34	554	16
Eliminate duplications	(4)	(87)	
	210	9,694	46

Analysis of Gearing Year by Year

	Total Value £m	Equity £m	Mezzanine £m	Debt £m	Gearing %
1981	46	31	-	15	48
1982	469	194	-	275	142
1983	161	46	-	115	250
1984	171	85	-	86	101
1985	855	233	123	499	267
1986	960	297	96	567	223
1987	2,772	813	213	1,746	241
1988	4,471	1,214	282	2,975	268
1989	4,989	795	778	3,416	528
	14,894	3,708	1,492	9,694	302

Listed MBOs Over £10m

Pre-1985	1985	1986	1987	1988	1989 (to date)
*Kingfisher (310)	Cullens (10)	Gomme (12)	*Life Sciences Int (11)	*F.J.C. Lilley (27)	Ratcliffs (13)
	Haden (60)	Berkertex (23)	*Wickes (120)	Dwek (37)	Beacon (29)
			Int Leisure (157)	Glass Glover (62)	Tyzack (48)
			Lee Int (196)	Invergordon (116)	Illingworth Morris (49)
				Virgin (248)	*British Syphon (53)
				*Lowndes Queensway (450)	Ryan (70)
					Charles Church (203)
					Magnet (665)
					Gateway (2,375)
Unsuccessful Attempts					
	Molins (50)	McCorquodale (164)			
		Simon Eng (201)			

* *Stayed public*

Nikki Tait investigates quoted company buy-outs

Trend beginning to ease off

FEW aspects of the management buy-out movement have aroused as much controversy as the MBO bids made for entire quoted companies. It is a subject which has filled hundreds of column inches in the press; sustained many a flagging City lunch; and, quite justifiably, raised some thorny issues for shareholders, advisers and managements alike.

The trend towards buy-outs of entire quoted companies can be directly linked to the collapse of world stockmarkets in October 1987. Finding the share prices of their companies depressed and the advantages of a stockmarket quote in terms of fund-raising or acquisition finance temporarily absent, a number of managements have considered moving out of the quoted company domain.

Although most investment bankers concede that the fall-off rate – in terms of deals which never come to fruition – in this area is particularly high, the list of companies where such MBO bids have seen the light of day steadily lengthened during 1988 and early 1989.

Ahead of the stockmarket crash, such deals could be

The trend towards buy-outs of quoted companies can be linked to the 1987 stockmarket collapse

counted on the fingers of one hand: there was the abortive deal at Molins in 1985, followed by Haden management's successful cash bid in the face of an unwanted offer from Trafalgar House, and similar transactions at Aircall and Mr Harry Goodman's International Leisure Group.

The first deal to surface after the crash came at Glass Glover, a modest fresh fruit grower and distribution group. Here, the management launched a £47m offer in early-1988, and a substantial (but not controlling) family stake was pledged to accept.

However, it quickly ran into trouble – and in ways the obstacles raised were a forerunner of those that would trouble a number of subsequent MOBs for quoted companies. In this particular case, it

The first deal to surface after the crash came at Glass Glover, a modest fresh fruit grower and distributor

was Scottish Amicable, the Glasgow-based institution, with almost 10 per cent of the ordinary shares and a rather higher proportion of the preference shares, which decided that a higher price was justified.

The problem centred on the fact the Glass Glover's trading pattern had only just suffered a reversal after many years of consistent, if undramatic, growth. Shareholders were obliged to judge whether this indicated a sustained downturn, or whether management could see the light at the end of relatively short tunnel. That, in turn, raised the thorny question of the extent to which management were in a privileged position vis-a-vis information about the company's position, and shareholders were at a corresponding disadvantage.

In the case of Glass Glover, there was a lengthy stand-off between Scottish Amicable and the management bidders – who quickly went over the 50 per cent mark, but needed to be able to mop up the entire minority. In the end, Scottish Amicable – reckoning to have made its point – accepted.

The trend for buy-outs of quoted companies accelerated during the following months – with management at the likes of Dwek, Invergordon Distilleries and Mr Richard Branson's Virgin Group all instigating such moves. But in virtually all these cases, there were supportive controlling shareholders at the outset. That did not mean that this control position guaranteed success: the Virgin buy-out, for example, was effected by the "scheme of arrangement" route, so that the Branson/management stake was debarred from voting on the "privatisation" issue. Even so, knowledge that a controlling shareholder was supportive of a move to take the business out of the quoted sector, made resistance less likely.

Matters came to a head again over two deals where there was no such advantageous start for the bidder – Ryan International, which went through smoothly but with institutional shareholders giving the matter some careful thought and, to a much greater extent, Magnet.

With the bid valuing the group at £630m, Magnet represented the largest company subjected to a management buy-out bid. It also started with only a minimal number of shares held by management and, therefore, pledged to accept the deal.

The issues were various. On the one hand, there were those which were specific to the business itself. As a kitchen and DIY company, there were particular question marks over its future trading position in the wake of a drop in general consumer demand; and much of the unhappiness centred on the original offer terms for the company's convertible preference shares. To this, were added all the more general questions: the right of shareholders to be given sufficient information on which to make an informed judgement; the privileged postion of management; and the extent to which management holds the whip-hand in these situations since – if rebuffed – it may lose any incentive to continue running the business.

The first point, it should be noted, had been unhappily underlined in a number of previous deals through examination of the covenants made by the bidding vehicle with its banking backers. Invariably, these deals were funded by hefty loan packages and, in return, the bidder made certain promises over the level of interest cover which it would maintain, debt ratios, trading profits and the like. From these documents, rather than from any information given to the company's shareholders, it was often possible to glean some indication of the bidder's hopes for the future. Not unreasonably, some shareholders suggested that if there was a trading plan available to the banks, why should they not be

Whether MBOs of quoted companies flourish again must depend heavily on market conditions

given some indication of its contents?

Again, as with Glass Glover, the Magnet bid was eventually settled in favour of the bidder – but only after a prolonged struggle. And the chorus of voices unhappy about such deals gave rise to a couple of institutional initiatives – including a National Association of Pension Funds discussion paper, suggesting that certain information should automatically be made available to shareholders in these situations.

But since then, with the economy uneasy and interest rates both high and possibly going higher, the trend towards management buy-outs of quoted companies has eased off noticeably, and the issue has lost some of its heat. While the Isosceles bid for Gateway *has sometimes* been placed in this category, it was something of a hybrid case – combining features of both a leveraged management buy-in and a management buy-out – and must certainly be an exception rather than the rule.

Whether MBOs of quoted companies *flourish again* in the future must surely depend heavily on stockmarket and general economic conditions – but, while the banking community may regret any decline in this lucrative line of business, there are an equal number of institutional investors who would not mourn its passing.

Comparison of Listed and Unlisted MBOs over £10m

	Number			Value (£m)		
	Total	Listed	%	Total	Listed	%
1981-84	24	1	4	840	310	37
1985	22	2	9	850	70	8
1986	28	2	7	950	30	3
1987	35	4	11	2,780	490	17
1988	54	6	11	4,440	940	21
1989 (9 months)	47	9	19	4,950	3,500	71
	210	24	11	14,810	5,340	36

Finding your way through the buy-out jargon

In the early days of the venture capital and management buy-out sectors in Britain the deal-makers made use of colourful jargon borrowed in part from the American venture capital industry. Now that buy-outs have become more of a mainstream financial activity some of the exotic language has gone, but the sector still has its own terminology which may be unfamiliar to the outsider.

Bought deal – When a deal maker provides all the finance needed for a buy-out deal and then sells on or syndicates part of the funding to other investors later. *Done by the larger providers of finance when speed or confidentiality are particularly important for the deal to succeed.*
Bridge financing – Relatively short-term funding provided as part of the mezzanine layer of finance for a buy-out.
Caps, collars and cylinders – Clauses in buy-out deals which limit the extent to which the interest rate charged on borrowed funds can rise or fall. A safeguard against borrowing costs rising to the point where they endanger the company.
Such agreements usually have a limited life of one to four years. The longer the period of cover the more expensive *the collar or cap.*
Captive fund – A venture capital fund which is part of or owned by a larger group and which does not raise funds on its own account.
Carried interest – A stake taken in the investee company by the venture capital or buy-out fund managers. Can be in the form of options.
Deal flow – The rate at which investment propositions come to the deal-maker or financier. Many claim to select only one deal in 50 though deal flow numbers are treated by some as a sort of virility symbol.
Development Capital – Later stage finance for more established companies which are profitable or nearly profitable. Less risky generally than early stage finance.
Due diligence – Detailed analysis and appraisal of the background of the entrepreneur and his business plan.
Earn out – Either a formula for relating the final purchase price of a company to actual future earnings or a means of encouraging management to perform by payment on the basis of future performance *(see also ratchet).*
Equity kicker – An option to acquire equity, often granted to the provider of mezzanine finance to compensate for the higher risk involved in this type of funding.
Exit – The point at which the financier sells his holding in the buy-out company either by means of a trade sale to a larger company, by the management buying out the other investors to assume complete control, or by a stock market flotation.
Gearing or leverage – Borrowings as a percentage of shareholders' funds.
Hands-on or pro-active – Can mean many things, from the investor becoming involved in the investee companies marketing and product policies to his providing advice on general management questions and taking a non-executive seat on the board.
Independent fund – One which raises its own finance from investors. Unlike most captive fund managers, independent fund managers take a stake or carried interest in their portfolio.
Internal Rate of Return (IRR) – Different people work this out in different ways but it usually means the annual rate of return to the investor over a given period, including dividend distributions and the profits from disposals or the profits shown on a fair valuation of the buy-out company.
Junior debt – Loans which rank after secured or senior debt for repayment in the event of a default.
Junk bonds – High yielding but unsecured and therefore high risk debt used in buy-outs in the United States. Being in bond rather than loan form junk bonds can be bought and sold more readily than their UK equivalent – mezzanine loans.
Lead investor – Venture capitalist or other deal-maker with the largest share in the syndicated investment. He usually initiates the deal and takes a hands-on role on behalf of the other partners.
Lemons and plums – Bad investments go wrong before the good ones produce a profit. The lemons usually ripen *before the plums.*
Living dead – Companies which are just about trading profitably but which are unlikely to do really well. A slightly dated term used about investments the deal-makers prefer to forget.
Leveraged buy-out – Similar to a management buy-out though usually applied to US deals where the transaction will have been initiated by a financial group rather than the management.
The name refers to the high level of borrowing which the company takes on, using the assets being purchased as leverage.
With the financiers taking a lead role in some of the large buy-ins and buy-outs of public UK companies the term is being increasingly applied to UK deals.
Management buy-in – An offshoot of the management buy-out industry. The purchase of a business by one or more outside managers with the help of a group of financial backers.
Now applied somewhat indiscriminately to any bid involving a well-known City figure on the grounds buy-ins sound more constructive than hostile takeovers.
Because buy-ins involve an outside management team which does not know the company as well as a buy-out team would they are riskier but, if successful, more lucrative for the backers.
Management buy-out – The purchase of a business by its existing management with the help of a group of financial backers.
The managers put up a relatively small amount of the total finance but usually gain a disproportionately large share of the equity.
Buy-outs are funded largely by loans secured on the assets of the company itself.
Mezzanine finance – Unsecured loans which rank after secured or senior debt but before equity in the event of the company failing.
To compensate for the greater risk to the lender, it usually earns interest one to three percentage points above secured loans and often carries an equity "kicker" to give the lender a stake in the equity.
Ratchet – An incentive arrangement whereby the managers get a bigger share of the equity if the venture performs well. Sometimes managers forfeit shares if they do particularly badly.
Replacement capital – A euphemism for cashing in one's chips. When an entrepreneur sells some of his shares to raise money or because he wants to pull out of the venture the cash he receives is replacement capital.
Second round financing – Becoming increasingly available to provide funds to buy-outs which have done particularly well and which want to restructure their finances or raise new money for investments on more favourable terms. Usually provided by the original financiers but in some instances management teams have turned to new backers.
May also be available to buy-outs which have performed less well than expected and which need extra funds. In that case there is often also a change of management.
Senior debt – Secured debt which ranks first in terms of repayments in the event of a default. See also junior debt.
Slippage – This is what happens when the buy-out company starts to eat up more cash than expected because development costs exceed budget or sales grow too slowly.
Star – *A company which is so successful that it pays for all the failures in a financier's portfolio many times over.*
Syndicated investment – An investment which is too large and risky to be handled by one investor and which needs to be shared among several partners.
All but the very large investors syndicate their deals.
Vendor finance – Finance provided by the vendor in the form of an agreement to accept deferred payment or a retained minority stake in the bought-out company.
Venture capitalist – Deal-maker who provides funds and advice to entrepreneurs either starting a business from scratch or staging a management buy-out.
The failure of many start-up companies backed in the early days of the venture capital industry has persuaded many venture capitalists to concentrate on later stage investments, more properly known as development capital, and on buy-outs.

Charles Batchelor discusses buy-ins

Popular alternative to the buy-out

THE past few months have seen the term "buy-in" threaten to become a catch-all term for a hostile bid launched for a publicly-quoted company.

The record-breaking £13.5bn takeover bid for BAT Industries by Sir James Goldsmith, Mr Jacob Rothschild and Mr Kerry Packer has at times been described as a buy-in because these three prominent individuals, or companies owned by them, would acquire stakes in BAT if the bid succeeds.

The £2.4bn acquisition of the Gateway supermarkets group is more properly described as a buy-in since the deal is headed by an experienced manager – Mr David Smith, a management consultant – who, as chief executive, will have a role in the day-to-day management of Gateway. In deals of this size, however, the equity allocated to the incoming management team is very small.

But even in the case of Gateway, the plethora of professional advisers and the bitterness of the publicly fought battle for control with a rival bidding team have given the transaction more the character of a City bid battle than of the traditionally more low key buy-in arrangement.

As the buy-out and buy-in industry moves upscale to include a growing number of deals involving large publicly quoted companies this trend is likely to continue.

And where publicly quoted companies are involved it is the buy-in which appears likely to dominate rather than the buy-out.

A buy-in, involving an outside management team, avoids the charge frequently levelled at buy-out teams that they have privileged knowledge of their company's activities which places outside shareholders at a disadvantage. The recent £629m buy-out of furniture retailer Magnet ran into shareholder hostility over just this issue.

While public attention has been focused on a small number of very high profile public company deals a growing number of small and medium-sized companies have undergone buy-ins.

Investors in Industry (3i), one of the leading buy-out arrangers in terms of number of deals done, expects to carry out between 60 and 70 buy-ins this year compared with just 42 (worth a total of £15m) in 1988.

"We will see some increase in buy-outs but there is bigger potential in buy-ins (and start-ups) this year," said Mr David Marlow, chief executive.

3i set out 16 months ago to create a 200-strong cadre of managers willing to stage a buy-in and succeeded far beyond its own expectations. It received an initial 700 replies, many from senior executives – finance directors and divisional directors – in their late 30s and early 40s from Britain's top 200 companies. 3i says it was impressed with the quality of the people who responded and intrigued by the fact that so many of them had home addresses in and around Guildford, Surrey.

One reason for the large numbers of managers available to stage buy-ins is the publicity which has been given to buy-outs and a relative shortage of suitable buy-out candidates. While large corporations are continuing to make divestments the sheer volume of buy-out activity in recent years has absorbed many of the most obvious candidates.

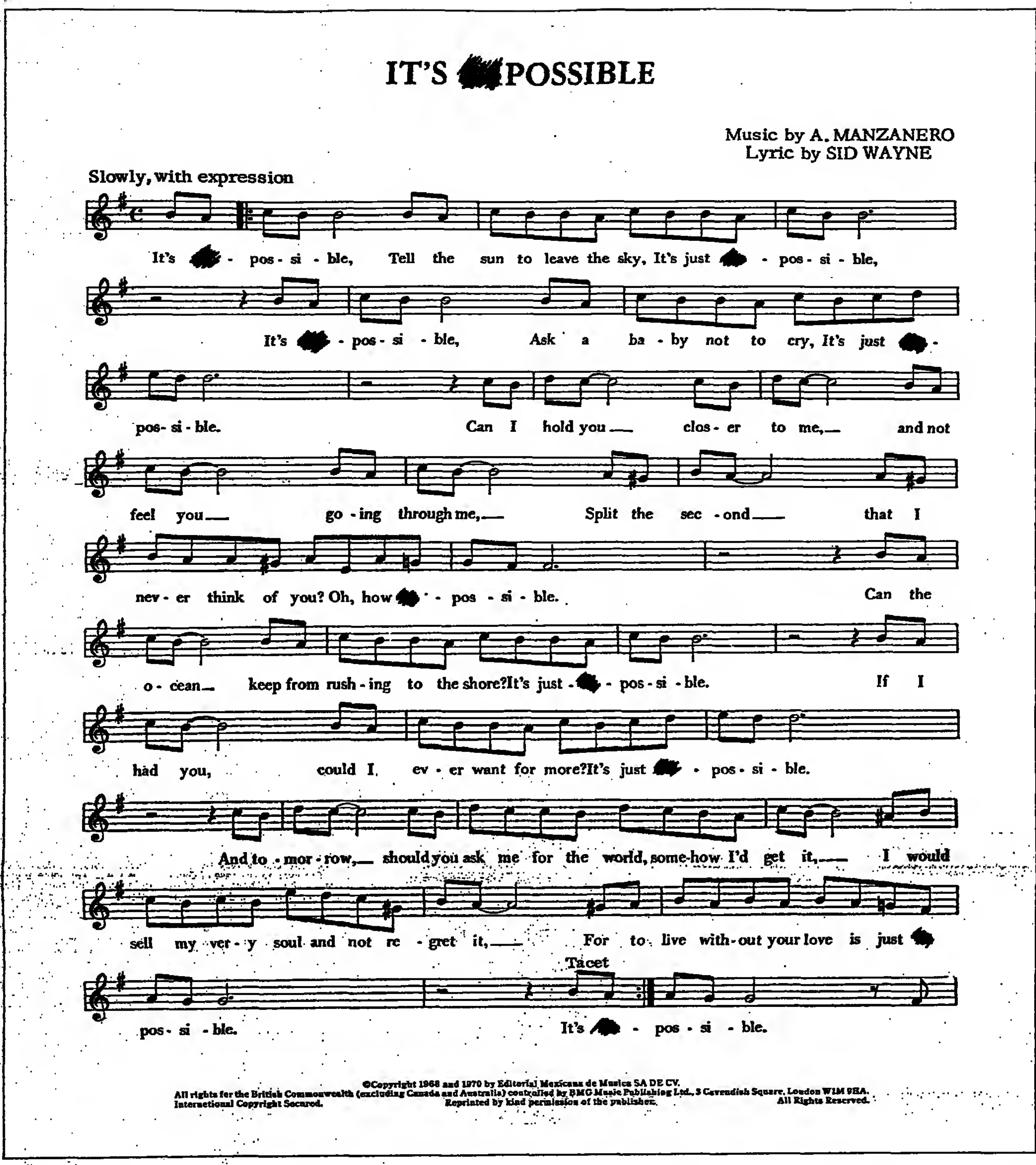
In addition, some companies are opposed to allowing their managers to stage buy-outs, arguing they should be putting their energies to making the business more efficient under its present ownership.

For managers in such companies the only way to obtain managerial independence is to stage a buy-in at another company.

3i appears to have found the formula for carrying out large numbers of buy-in (and buy-out) transactions, but other buy-in specialists stress that buy-ins are a relatively high-risk activity and managements and target companies must be selected and matched carefully.

However closely they study the target company the management buy-in team does not have the same detailed knowledge of its problems as the incumbent management. The buy-in company is also likely to be underperforming because of the failings of its present management. If they were any

Continued on Page 7



While volatile markets require caution, they also produce opportunities. Because a volatile market provides the perfect climate for senior managers to take over their companies via a Management Buy-Out. And if your present company is not for sale, 3i can help you find a suitable Management Buy-In opportunity. 3i have vastly more experience in MBOs and MBIs than anyone else in the market. So, if you're feeling confident why not give us a ring? In total confidence of course.

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3i INVESTORS IN INDUSTRY

MAKE IT YOUR BUSINESS TO CHANGE

David Waller discusses the role of accountants

Ideally placed to give all-round advice

ACCOUNTANCY firms are ideally placed to get involved in a management huy-out. Their partners play golf with would-be entrepreneurs and do their tax returns. They have offices all around the country. In short, they are closer to the husinessmen contemplating such a deal than any other breed of financial adviser

Over the past few years, they have picked up the experience and motivation to construct increasingly complicated huy-out transactions. Keen to diversify away from such ex-growth businesses as andit, they have earmarked corporate finance as an important business for the future. Structuring huy-outs has become a way of life for an increasingly large number of accountants.

The firms do everything apart from raising money. They sell the idea to managers unfamiliar with the ways of the City. Then they conduct beauty parades to pick a financier. They negotiate the deal from the managers' point of view – haggling with the financier over the cost of money and the structure of the transaction. They advise on the price. They sort out the managers' tax affairs and perform investigations into the state of the target company's accounts.

The fact the accountancy firms do not – as yet – get involved in the fund-raising side of a deal is a good thing, from their point of view: it means that they do not tread on the toes of the merchant bankers who advise the corporate client rather than the managers.

Although accountants are well placed to advise on small huy-outs, they have not found themselves excluded from a role in the very largest transactions.

Evidence of this is provided by the controversial case of

The firms do everything apart from raising money

Magnet, the Yorkshire-based manufacturer and retailer of kitchen and bedroom furniture which succumbed to a £629m offer from a management team earlier this year. The deal provoked quite a furore in the City, with ethical arguments raging about whether managers of a publicly quoted company such as Magnet should be allowed to launch a buy-out bid.

A well-kept secret was Arthur Andersen's role as adviser to Mr Tom Duxbury and his management team. At the time, the press was awash with reports of squahhles between Kleinwort Benson – adviser to Magnet qua public company – and Bankers Trust, adviser to the new company set up to launch the bid on behalf of the management. Beavering away hehind the scenes as adviser to the management was the big accountancy firm.

Andersen found itself in this role as a result of a presentation on an entirely different matter – a beanty parade designed to identify a new auditor for the group held long before the go-private option had been floated. Andersen apparently suggested that a buy-out might be a good idea. This chimed in with Mr Duxbury's thoughts on the matter, the beanty parade was cancelled, auditors retained and Andersen appointed adviser to the management team.

Its role was then very much as described above. It organiseda beauty parade to find a provider of funds, in this case Bankers Trust. It wrangled over the structure of the deal – which was in fact unusually complicated, with a large (£190m) slab of mezzanine finance and an employee share ownership plan to boot.

Another complication was structuring a sliding scale of equity entitlement to match profits performance – but if all goes well, management and employees stand to own 20 per cent with warrant holders entitled to a similar amount.

(It seems unlikely that profits will meet the best expectations contained in the prospectus, given the impact of high interest rates on consumer demand for Magnet's sort of products. But that is another story.)

Andersen's fees were earned on a success-related basis. Quite how much they received is, of course, a secret, but Michael Oaten, head of the firm's hurgeoning corporate finance department, lamented that they did not even amount to 1 per cent of the value of the deal. Still, even 0.5 per cent of £629m is an ample sum.

On the face of it, it is surprising that Andersen did not make more of its involvement in the transaction – although that is perhaps explained by the controversial nature of the deal. The City was disaffected enough about the buy-out in principle: it probably would have been upset to learn about the ingenious ways in which Andersen was maximising Mr Duxbury's return on his investment.

Accountants in larger MBOs

	No's of deals assisted
Peat Marwick McLintock	73
Touche Ross	19
Arthur Andersen	18
Deloitte, Haskins & Sells	18
Ernst & Young	18
Price Waterhouse	18
Coopers & Lybrand	16
Spicer & Oppenheim	7
Grant Thornton	6
Others/Not known	21
Eliminate duplications	(4)
	210

Other firms are not quite so coy, and Grant Thornton, the firm with the largest spread of provincial offices in the UK was rightly proud to trumpet its role in a £54m buy-out from Thorn EMI. The firm acted as principal financial advisers to the team buying Kenwood, the fabled manufacturer of food preparation appliances such as the "Kenwood Chef" food-mixer.

The company employs 1,300 people around the world and is based in Havant, Hampshire, and the Isle of Wight. The transaction – the equity element funded by Candover investments, the debt by the National Westminster Bank – left Thorn EMI with a 10 per cent stake, while the management team's holding is undisclosed.

Grant Thornton's role was akin to that of Andersen at Magnet: advising on the selection of financiers, tax structuring and so forth. That the deal was handled from the firm's Bournemouth office shows how the corporate finance/negotiating skills required to structure a buy-out are not confined to accountants working in London.

At the other end of the scale, there are plenty of firms eager to set np the very smallest buy-outs. Blackstone Frank, for example, is a City-based partnership which specialises in filling what it calls the "funding gap" created by the steady rise in deal values. "Many venture capital outfits will not touch a deal worth less than £1m," the firm says, "a lower limit that will undoubtedly rise with the values of buy-outs overall." Blackstone's expertise, it claims, is in spotting such smaller bids, often where approaches to major venture capital houses have failed.

Involvement of Solicitors in Larger MBO's

	Acting for: Deal leader	Managers	Total
Clifford Chance	42	20	62
Ashurst Morris Crisp	26	9	35
Allen & Overy	15	6	24
Herbert Smith	10	8	18
Slaughter & May	7	10	17
Freshfields	13	3	16
Macfarlanes	9	3	12
3i legal	11	-	11
Dickson Minto	3	8	11
Alsop Stevens	1	9	10
Norton Rose	5	5	10
Lovell White Durrant	4	5	9
Travers Smith Braithwaite	5	4	9
Cameron Markby	6	2	8
Linklaters & Paines	5	3	8
Simpson & Curtis	1	7	8
Turner Kenneth Brown	1	7	8
Wragge & Co	2	6	8
Evershed & Tomkinson	1	6	7
S.J. Berwin	3	4	7
Wilde Sapte	5	-	5
Berwin Leighton	2	2	4
Dundas & Wilson	2	2	4
McGrigor Donald	1	3	4
Nabarro Nathanson	1	3	4
Biddle & Co	-	2	3
Kimbell & Co	-	3	3
Simmons & Simmons		3	3
Others/Not known	34	73	107

Max Findlay on role of lawyers

Co-ordinators of all the strands

THE MAIN task for MBO lawyers is to help get the deal done. This is made easier in a private company huy-ont becanse all the parties involved want to make the transaction work. Peter Turnbull from Macfarlanes makes this plain: "It's an enormously co-operative venture, so the unspoken instructions to the lawyers are to protect the parties' interests bnt work together to get the deal done."

That observation can be broken down further. According to Lovell White Durrant's John Penson: "The management's lawyers are told to get the deal done. The bank's lawyers are told to get the deal done on good terms." This means keeping a firm grip on commercial realities. "Lawyers have to understand the economic forces which drive these transactions," said Steven Boughton from Linklaters & Paines.

Equally there is a need for someone to co-ordinate the various strands of activity in a buy-out. According to Geoffrey Green from Ashurst Morris Crisp, solicitors are playing an increasingly organisational function in MBOs. The accountants tend to have a more investigative role. So the lawyers are spending almost as much time on pulling the deal together as on the legal technicalities of the transaction.

To stay on top of the game, practitioners have to guesstimate future developments. Alan Paul from Allen & Overy detects that "proposals for buy ins are on the increase". Freshfield's James Davis articulates a widespread view that "US investment banks could become increasingly involved".

Many lawyers anticipate more work in the restructuring and refinancing of buy-outs. Both Ashurst's Geoffrey Green and Travers Smith Brathwaite's Michael Combes see an increasing trend in the seller holding on to an equity stake in Newco (the company formed by the management to purchase the target firm or subsidiary put up for sale).

Lovell's Mr Penson (along with many others) is keeping a weather eye on the mezzanine market but believes one buy-out trend is towards more trans-border deals in Europe. Mr Boughton believes there will be more deals of greater size paralleled by an increase in available MBO funding.

Clifford Chance's Ian Sellars is equally convinced there will be fewer small MBOs but more large ones. This will have an impact on the involvement of lawyers as it is widely believed the bigger the deal, the bigger the legal problems.

The public are wrong on this point. As Mr Combes points out: "The same legal techniques are used on a wide range of deals, not just the big jobs. This means that a considerable number of lawyers in a firm will have the experience needed to handle transactions of this kind".

But no-one is pretending that MBOs are easy. Says Mr Turnbull: "The most difficult part of any buy- out is the ratchet, the actual structuring of the capital and describing it in the articles."

He adds: "We all dread the negotiation over warranties." That is a point picked up by Mr Sellars who rnefully reflects on the amount of time wasted on representations and warranties. For Mr Boughton the most challenging part of the drafting is ensuring the correct inter-relationship between the different levels of finance which underpin the whole transaction.

The traditional long-term objective of the MBO is a flotation. "This is the natural focus of the entrepreneurial spirit which is inherently engendered by the buy-out" says Geoffrey Finn from Slaughter and May. However, Herbert Smith's David Bolton has noticed since the stock market crash that it's been quite difficult to bring new companies to the stock market by way of flotation. Mr Finn sees an increasing trend to buy-outs of safer, less exciting businesses – the steady widget-makers – rather than the sexier high-tech enterprises.

But buy-outs have undoubtedly become more ambitious. "The main development over the last year has been the LBOs of listed companies," comments James Davis from Freshfields.

Mergers and acquisitions experience is increasingly fundamental whichever side the solicitor may be representing. Each party needs a lawyer to guide them through the corporate finance jungle.

Alan & Overy's Alan Paul explains the drive towards listed companies: "You can create the deals whereas in MBOs of private companies it is management driven." Equally under the City code on takeovers and mergers, any competing bidder is entitled to the same information which is provided to Newco (and ultimately its financial backers).

Again existing directors who will be part of the new management team cannot properly recommend the bid to the shareholders. So confidentiality and conflict of interest become an issue and this is where non-executive directors can play such a crucial role.

A crucial area may prove to be the question of lawyers' fees. Mr Bolton says: "I think lawyers will be under increasing pressure to operate under arrangements whereby their remuneration will be limited if the deal does not go through."

It is a point shared by Guy Billington from McKenna & Company who firmly believes: "We will be doing more work on a flexible fee basis."

Although some of the largest law firms discount working on such terms, Mr Billington counters: "Those of us who are making our way in the world are prepared to take a more commercial attitude". However, Freshfields' Mr Davis speaks for many when he says: "Solicitors won't allow their objectivity to be prejudiced by a contingency element."

A measure of the sensitivity of this area is the reluctance of lawyers even to employ the term contingency fees.

Instead they will talk of "no foal, no fee" or "no hay, no pay" arrangements. This is largely because solicitors are not formally permitted to act on a contingency fee basis. As one eminent practitioner in the field put it: "If the deal does not go through, there's no way you can charge a full fee. I wish it was openly realised that this is going on."

Despite the time pressures (and many lawyers believe the timetables for MBO transactions will become even shorter), it is quite clear that solicitors relish their role. Freshfields' Mr Davis speaks for many when he describes his thrill at "doing the seemingly undo-able". Slaughter and May's Mr Finn says: "It's a real opportunity for lawyers to be constructive."

Macfarlane's Mr Turnbull emphasises his pleasure and joy in working in this environment. Faced with that kind of enthusiasm you have to believe that it's not just the prospect of fat fees which attracts them.

Nikki Tait investigates mezzanine finance

Important extra lubrication for funding deals

MEZZANINE finance has various descriptions. The loosest definitions are usually phrased along the lines of "somewhere between equity and debt on the risk/reward scale". The more thorough accounts invariably list the various instruments which may fall into this all-embracing category, from high-yielding subordinated debt with no equity rights, through to zero coupon paper which carries very substantial equity conversion rights.

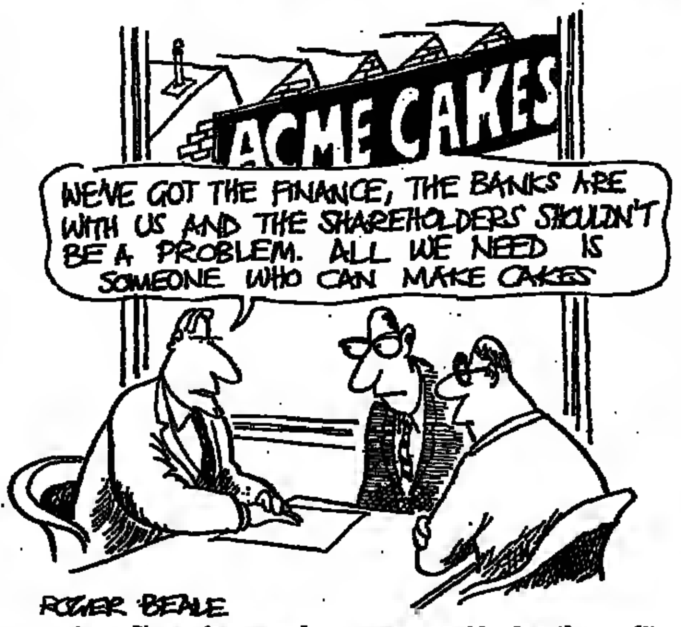
But if pinning a precise definition to "mezzanine" is difficult, it remains undeniable that this type of financing has found its principal employment in the UK in the management buy-out/venture capital market.

Even here, the growth has been gradual — if steady — rather than exponential. *Mezzanine financing first began to* make a regular appearance in the mid-1980s, featuring in management buy-outs at Haden, Caradon and Lawson Mardon. Having been used only once in 1984, it is reckoned to have featured in more than 20 deals in 1988. This, however, looks less impressive when viewed in context. In 1984, for example, the total number of UK MBOs was put at around 240; last year, the figure stood at more than 350.

It remains undeniable that mezzanine financing has found its principal employment in the UK in the management buy-out/venture capital market. The growth has been gradual, if steady

The slow trend towards the acceptance of mezzanine finance has partly followed the supply of funds. Certainly, over the past year, there has been more attention paid to *the UK market* — and the opportunities which may be present here — by some of the US specialists, who have a much longer track-record in this area. The likes of GE Capital, for example, have developed a significant London presence, while a couple of "mezzanine funds" have been raised by US organisations — one by Drexel Burnham Lambert, whose name is synonymous with "junk bonds" in the US.

The gradual growth of the mezzanine market may also have something to do with sale prices put on businesses. Much of the initial MBO movement in the UK was prompted by *recession-induced restructuring* in the early 1980s, with the result that businesses involved may not have commanded tiptop prices. Since then, as the MBO technique has become more widely accepted, it is at least arguable that the quality of assets involved in these leveraged deals has improved, and that higher purchase premiums have flowed as a result.



This, at any rate, is sometimes cited as a reason for introducing a mezzanine element. The advantages are purely financial, allowing — at least, in theory — a better matching of investors' desired returns with a company's capacity for generating them.

The mezzanine providers will rank below the senior debt lenders if the buy-out subsequently encounters trading problems, and will seek a return which betters that of the more secured debt providers.

But they should not impinge too drastically on the equity *layer — which, after all, provides* the key management incentive and is one of the main justifications for expecting an improvement in the trading pattern of the underlying business post-buyout.

That said, there is the inevitable sequel that the leverage involved in the deal is increased as a result — and at a time when the UK interest rate climate remains highly uncertain, this may well explain mezzanine's relatively slow acceptance at present.

Mezzanine funding, it should be noted, has begun to make appearances both on the contested bid stage and in buy-outs of quoted companies. Perhaps the two deals which have done most to bring this form of financing to widespread attention have been the highly contentious £630m management buy-out bid of Magnet, the kitchen furniture group, and the £2.4bn bid battle over Gateway, the UK food retailer.

The management buy-out offer for Magnet, the largest bid by a management-backed vehicle for a quoted company, was both lengthy and fraught. It became the focus for a number of difficult issues which had been brewing for some time — management's preferential information flow, how the interests of shareholders should be safeguarded in these situations and so on.

The funding, however, was remarkable for the amount of mezzanine financing suggested. It involved £190m-worth — comprising £160m of senior subordinated loans and coming behind that, £30m of junior subordinated debt. This compared with £300m of term debt.

The senior mezzanine paid 3.5 per cent over Libor (London interbank offered rate), while the junior slug earned 4.25 per cent above Libor, offering an additional equity "kicker" in the form of warrants on about 6 per cent of Magnet's stock.

The Gateway battle, meanwhile, took matters even further. The initial bid came from Isosceles, a newly-formed company backed by certain institutional investors. The funding package here took the form of £1.9bn of senior debt, made up of a variety of separate facilities; £200m of equity finance; and, in between the two, a £375m mezzanine layer.

The use of mezzanine financing in MBO situations is set to increase

However, in defence, Gateway started looking for alternative buyers for the business and eventually came up with Great Atlantic and Pacific Tea Company, the US food retailer, with Wasserstein Perella — the US investment banking boutique — supplying financial support.

The A&P/WP package proved even bolder. Here the senior debt layer amounted to £1.7bn, while the equity layer — provided by the Wasserstein Perella partnerships and A&P — was £500m (subsequently nudging higher as an auction between the two rival bidders got under way). The more striking element, however, was the £500m tranche of mezzanine — by far the largest mezzanine element to appear in a UK deal. Just to complete the frontier nature of the package, the entire slug was underwritten by J.P. Morgan, the US investment bank.

Nevertheless, the commitment of some major players to the London market and genuine advantages which additional funding flexibility can offer in certain circumstances, would seem to ensure that the use of mezzanine financing in MBO situations is set to increase in the longer-term, albeit at a steady rather than dramatic rate.

Leading Mezzanine Arrangers

	Number of deals led	Total value £m	Average size £m
3i	13	187	14
Bankers Trust	9	300	33
Barclays/BZW	7	74	11
County NatWest/Nat West	7	70	10
SecPac/SPHG Equity	5	38	8
Phildrew	4	14	4
GE Capital	3	580	193
PIC Capital	3	109	36
Standard Chartered	3	88	29
Bank of Boston	2	13	7
Charterhouse	2	24	12
Chase	2	11	6
Citicorp	2	15	8
Kleinwort	2	17	9
Others	14	202	14
Eliminate duplications	(6)	(250)	
	72	1,492	21

Use of Mezzanine on UK MBOs over £10m

	MBOs using Mezzanine			Total MBOs		% of deal covered by mezzanine	% of MBOs using mezzanine	Average size of mezzanine layer
	Number	Amount of mezzanine £m	Total value of deals £m	Number	Total value of deals £m			£m
1985	5	123	430	22	850	29	23	25
1986	7	96	370	28	960	26	25	14
1987	14	213	1,570	35	2,770	14	40	15
1988	24	282	1,800	54	4,470	16	44	12
1989 (to date)	23	778	4,200	47	4,990	19	49	34
	73	1,492	8,370	186	14,040	18	39	20

Popular alternative to the buy-out

Continued from Page 4

good they would be staging their own buy-out.

The buy-in team may also consist of individuals who have not worked together before or may involve a combination of the newcomers and the existing management. Team members may not get on with each other as well as they thought. These difficulties mean buy-ins suffer a higher *failure rate than buy-outs.*

They are attractive to investors, however, because the higher risk is compensated for by a higher return. Investors typically calculate a gross annual rate of return of 30 to 40 per cent on buy-outs against 40-50 per cent on buy-ins.

This has prompted a number of venture capital and investor groups to raise new finance in recent months specifically to fund buy-ins. In April MMG *Patricof, a venture capital* group, raised the first tranche of a planned Ecu 300m (£203m) fund to finance buy-ins in Britain and France.

See the table UK Larger Management Buy-Ins 1982-1989 on Page 16

The fund, the largest of its type in the UK, will target underperforming, family-owned companies and divisions of larger companies with annual sales in the £100-£200m range. Patricof estimates there are between 1,100 and 2,150 companies in this category in the UK.

Advent, another UK venture capital group, announced in March that it was raising a £50m fund to invest in established but underperforming companies.

Despite expectations that, in the long term, buy-ins will grow in popularity, current high interest rates may have a greater impact on buy-ins than on buy-outs. "There are so many risks attached to buy-ins that investors are reluctant to take a risk on the leverage," notes Mr David Hutchings, deputy managing director of Midland Montagu Ventures. "The environment is not right for relatively high-risk deals. A large number of buy-ins have been packaged up and put on the shelf until interest rates come down."

Charles Batchelor looks at the organisations arranging buy-outs

Management teams have a broad range of choice

MANAGEMENT buy-outs in Britain have traditionally been arranged by venture capitalists used to making long-term investments in unquoted companies. They combine industrial skills – "the willingness to walk round kicking tyres" - with the banker's purely financial skills.

For much of the 1980s a management team keen to stage a buy-out was best advised to run through one of the venture capital directories to find someone willing to back their venture.

Some of the venture capitalist groups were independent partnerships, such as Advent and MMG Patricof, which raised their funds in the market. Others, such as Lloyds Development Capital, County NatWest Ventures and Schroder Ventures, were subsidiaries of larger banks and could call on their parent companies for finance.

Most of the original buy-out groups are still active

Dominating the industry, in terms of the number of deals done, if not in terms of their value, was Investors in Industry (3i), the largest UK provider of venture and development capital.

A number of specialist buy-out funds such as Candover Investments were also important players in the buy-out community but many of their senior managers also had backgrounds in the fields of venture capital or unquoted investments. These organisations were happy making illiquid, long-term investments in high-risk but potentially high-reward deals.

Most of the original buy-out groups are still active though in the past two years the cast of players has started to undergo a fundamental change.

The first deals involving teams of merchant bankers were completed in 1987, recalls Mr Rodney Hall, head of GE Capital Corporate Finance.

Previously, the role of lead investor and adviser to the management team had been played by the same company but merchant banks now began acting as advisers to the management team which then went out to get the best financial deal it could find. This development coincided with a leap in the number of buy-outs of publicly-quoted companies – larger deals which involved the corporate financiers' deal-making skills. Corporate finance teams are motivated by the fees they earn for putting together deals rather than the long-term prospects of the companies involved.

These larger deals provided the opportunity for earning the sizeable fees to which merchant bankers were accustomed from their mergers and acquisitions work for quoted companies. "They didn't start to notice until the MFI deal (for an unprecedented £718m in 1987)," said one buy-out specialist. "Then they realised that big money was involved."

The merchant banks had the corporate finance skills needed to put together the ever more complex financial arrangements required to make the large deals work. Their corporate finance work also gave them useful leads on potential buy-out opportunities. In addition, they had access to substantial sources of finance which were not available to the smaller venture capital groups.

The latest of the merchant banks to move into buy-outs is Morgan Grenfell which shortly plans to raise a fund of between £100m and £200m. It has set up Morgan Grenfell Development Capital, headed by Mr Robert Smith, formerly with Charterhouse Development Capital and the man who arranged the MFI buy-out. The new development capital group hopes to raise quite sizeable chunks of finance from a small number of large investors in the UK, North America, Japan and the Middle East, and to start doing deals early next year.

The new fund plans to go for medium-sized transactions because these are less highly priced than the very large deals for which there is often fierce competition, said Mr Michael Dobson, deputy chief executive of Morgan Grenfell. It also sees opportunities in the re-financing of earlier buy-outs.

As the deals grew bigger so the ability to raise all the finance has become more important. Only the largest players – a group of some 20 buy-out groups – are large enough to take all the finance on their own books in what is known as a "bought deal". They then syndicate it on to other financial groups later. Bought deals can be completed more quickly – important if rival buy-out or buy-in offers are on the table – or if the vendor wants to avoid too much publicity for a deal.

The increase in the size and the price of buy-outs has created a demand for mezzanine finance – high yielding loans between equity and secured lending in terms of risk – and for specialist mezzanine providers to supply it.

GE Capital, the financial arm of General Electric of the US, has set up a London-based mezzanine company headed by Mr Rodney Hall, like many others in the buy-out business, a former 3i executive. GE Capital calls on the resources of its parent company for finance but a number of rivals have established funds of their own.

Drexel Burnham Lambert, the US junk bond specialist, opted for a fund with the creation of the £200m First Britannia Fund. Intermediate Capital Group (a company not a fund) was launched in January to provide mezzanine finance with £200m of start-up capital and the backing of a range of international investors including Banque Paribas, Prudential Venture Managers, Shearson Lehman Hutton and the Industrial Bank of Japan.

The large-scale buy-outs and buy-ins of public companies in recent months have attracted a new wave of American leveraged finance specialists to the UK but some American banks have been active for a number of years. Bankers Trust has arranged several major deals, including the £90m buy-out of timber distributor Mallinson Denny in 1985 and of Premier Brands from Cadbury Schweppes. Chemical Bank has been an important provider of debt to UK buy-outs including most notably the buy-out of MFI.

Despite increasing competition from the newcomers many of the old-established buy-out groups are continuing to raise large funds to finance further activity. In August Electra Investment Trust, one of the longest-established investors in unquoted equity, created a £550m fund to invest in development capital, buy-outs, buy-ins and "recovery situations" throughout Europe.

Candover Investments raised a £319m fund for European buy-outs earlier this year while MMG Patricof and Schroder Ventures announced funds of £200m and £177m respectively to do buy-out deals.

The ability to get on with buy-out advisers is most important

For the management team looking for professional buy-out advice the wealth of choice is confusing. While the managers of public companies planning a buy-out will probably know to whom to turn, management teams in smaller businesses may be less well informed.

The buy-out team with plans for a more modest deal may rely on the recommendations of an accountant or a lawyer. They should start by looking for a buy-out group which specialises in their size of deal. Many large deal makers are not interested in transactions of below £10m-£20m while others are geared up to handle the smaller deal. Management teams in the regions, meanwhile, may find a local venture capitalist which arranges buy-outs.

Most important, though, is the ability to get on with the buy-out advisers who are selected. This is easier now than in the past. The growth in buy-out activity has had the healthy effect of broadening the range of choice for management teams.

Nikki Tait examines Employee Share Ownership Plans

Opportunity for exploitation

EMPLOYEE Share Ownership Plans (Esops) – which involve money being lent to a trust, which in turn buys shares on behalf of the workforce – remain something of an unexploited area in the UK.

In the US, some 10m people are reckoned to have an interest in the shares of their company, held in this form. Such plans have been utilised across the Atlantic since the late-1950s for the combined purposes of spreading ownership, improving remuneration packages and – by no means least – helping to finance buy-outs of companies by their employees. By contrast, there are only about 14 Esops in the UK, with the first plan being set up in 1987 at Roadchef, the motorway service operator.

That said, advocates of the Esops movement in the UK see scope for a vastly increased usage of this technique in the years to come. The Esops Centre, for example – an information and lobbying group set up to promote employee share ownership plans a year ago – says its membership has expanded from the eight founder members to some 70 organisations. These nowcomprise a mixture of legal firms, banking groups and accountancy practices.

There is talk, too, of further schemes in the pipeline, with some practitioners reckoning that the number of UK Esops could double or even treble in the coming year. This may be partially due to official attitudes – the 1989 Budget changes which, if still falling short of the movement's requirements, at least signalled official blessing for the concept, and a seemingly minor amendment to the Companies Act, which will become effective when the new companies bill becomes law. This last point centres on the wording of those passages which prohibit companies from supporting their own share price – and, unintentionally, poses problems for the construction of Esops as well.

There clearly exists a relationship between management buy-out schemes and Esops, but it is far from fixed. There have obviously been innumerable MBOs where Esops have never been considered – far less, implemented. And, equally, it is perfectly possible to introduce Esops without senior management leveraging up the company and taking some form of equity stake.

That said, there are good reasons why Esops and MBOs may go hand in hand. On the one side, there are the intellectual arguments: if senior management is being given a slug of the equity on the grounds that this will prod them into running the business more aggressively, it is logical to extend the thinking further down the employee chain. On the other, there are the financial considerations. The time when the capital structure is being changed anyway, is often a convenient point to introduce this wider employee ownership element, while the presence of an Esop adds an additional home for the higher-risk equity element involved in the buy-out.

As a result, a number of the limited band of UK Esops have fallen into one of two categories. On the first score, there are those which have actually being formed to facilitate the transfer of a company into the workers' hands – the type of deal which allowed the employees of Provincial Buses to acquire tha company for £730,000, for example. The company, now called People's Provincial, was Britain's second Esop and first in which workers owned all the shares.

Equally, there have been a few Esops which have been introduced largely as a result of an MBO taking place. Following on from this, ownership benefits have then been spread more widely among the workforce.

The most obvious example in this category is the Esop introduced at MFI, in the wake of the management buy-out of the company from ASDA-MFI. In this case, the company subscribed for around 5 per cent of the equity and required total finance of £11m – a record at the time for the Esop movement in the UK. The provision of the advice and finance came from Chemical Bank, one of the most active of the US investment banks in this area in London, and Kleinwort Benson, the UK merchant bank.

And, many observers suggest, this is a pattern which seems set to continue. The Esop concept, it is suggested, is ideal both for some of the smaller "privatisations" – the bus companies are usually held up as the best example – partly for political reasons. And it can be usefully extended to cases of small, unquoted companies where an owner faces retirement and lacks a natural successor.

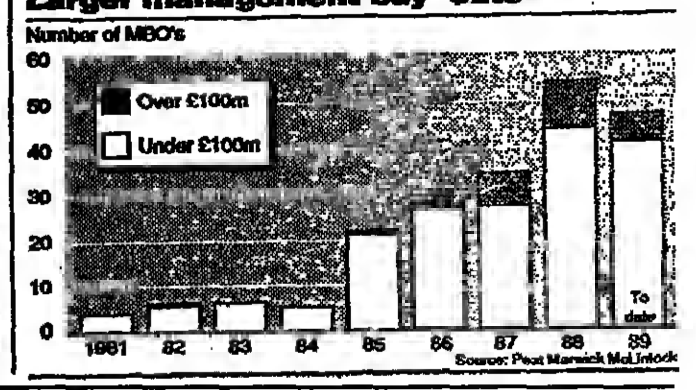
On the other hand, if the management buy-out movement continues to enjoy popularity, the desire to spread share ownership further down the employee structure can only foster the expansion of the Esops movement.

Staff stage a buy-out, Page 10

Leading Equity Investors

	No of MBOs invested in
3i	58
CIN	47
County NatWest	44
Charterhouse	42
Prudential	37
Citicorp	36
Electra	35
Globe	32
Legal & General	31
Midland Montagu	29
Candover	27
Lloyds	27
Phildrew	26
Barclays	25
Mercury	24
Kleinwort	22
Murray Johnstone	18
Schroders	18
Bankers Trust	17
ECI	15
MIM	13
Foreign & Colonial	12
Hill Samuel	12
Scottish Eastern	11
SPHG Equity	11
Standard Chartered	11
SUMIT	11
Norwich Union	10
Fleming	8
Rothschild	8
Standard Life	8
Sun Life	8
Bank of Boston	7
Fountain	7
Gartmore	[illegible]
Commercial Union	[illegible]
Eagle Star	[illegible]
Gresham	[illegible]
Ivory & Sime	[illegible]
Grosvenor	[illegible]
Merchant Navy PF	5
Thompson Clive	5

Larger management buy-outs



An exciting development for Morgan Grenfell.

On 30th October Morgan Grenfell will be launching a new division:

Morgan Grenfell Development Capital.

Our new division will be engaged in the arranging, financing of and investment in management buyouts, buyins and leveraged acquisitions mainly in the UK and Europe, and we are committing substantial capital resources to this new initiative.

To facilitate the equity financing of the largest buyouts, a fund will be raised.

We will also be involved in arranging smaller buyouts, buyins, reconstructions and the equity financing of growing, medium sized, unquoted companies, again mainly in the UK and Europe.

Robert Smith will become Chief Executive of Morgan Grenfell Development Capital.

He will be joined by Norman Murray and together they will head a team of buyout practitioners who have led several of the larger MBO/MBI transactions in the UK and Europe.

Our aim is to establish Morgan Grenfell as a leading participant in this field of activity. If you would like to know more about Morgan Grenfell Development Capital, please call Susan Deacon on 01-588 4545.

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THREE CASE STUDIES: COIL ANODIZING and CROCKFORD'S in the United Kingdom and AVIS in the United States

Ace came up trumps

ASKED to name one Belgian entrepreneur and the British businessman might be etumped. Ace Management Inventures has four.

"We're trying to keep a low profile," says Mr Armand Popowsky, one of the quartet, who two months ago surprised the Belgian corporate estsblishment by putting together one of the largest leveraged deals it had seen.

July'e BFr800m management buy-in at Coil Anodizing, which treats aluminium for industrial and architectural applications, was hardly spectacular by US standards and the financing was fairly straightforward. But it caught the imagination of local financial institutions.

Coil Anodizing is a private company serving the aluminium rolling industry. Rolling mills send "coils" of aluminium to the group, which anodises the metal on their behalf to prevent oxides forming. The rolling mill then sells the anodised product for use in architecture and building, transportation, household appliances and engineering.

For example, anodised aluminium, which can be treated to produce interesting decorative effects, was used to sheathe the epectacular new Arche de la Défense in the commercial district of Paris.

Popowsky says he and his colleagues were interested in Coil becauee of its strong financial record which had seen turnover more than double to BFr400m in the past four years and profits growing at 12 or 13 per cent annually.

"We are looking at companies that are financially very sound, with no debts and very, very interesting cash flows – but at the same time Coil had a uniqne technology and a unique position in the market," he says.

He is also quick to stress that the Ace approach differs from more conventional management buy-ins in that the aim was not merely to get seats on the company's board.

"We're not trying to buy the company to get a job – we're in the acquisition business," he says.

The four founder members, who formed Ace in 1987, all have experience of leveraged buy-outs in the US and elsewhere in Europe, bnt Popowsky says they are "pioneers" of such deals in Belgium.

US-owned Continental Bank provided and underwrote debt facilities for the Coil Anodizing deal, to the tune of BFr750m. Other participating banks included Belgium'e Kredietbank, Banco Hispano-Americano (Benelux), and First Nordic.

Tim Hutton, senior director handling the deal in London, says the deal was relatively uncomplicated: "There were, as always, some local peculiarities. Snbordinated debt required extra thonght, because there are special rules in Belgium about banks holding stocks."

But in spite of the simplicity of the buy-in, the speed and structure of the deal, and the concept of leverage itself, intrigued Continental's US counterparts, in particular Ace's domestic adviser, Kredietbank.

"We got a response from a number of different financial institutions interested in discussing ways in which we might help them develop such business, or work with them in importing the financial technology," says Hutton.

"It's fair to say that subject to certain local legal variations, the financial technology for this type of transaction is basically the same from country to country," he adds.

Continental is anticipating tremendous growth in leveraged deals, both in Belgium and other European countries. Certainly Ace, which has also bought two related companies in the printing and book-binding business, is not intending to slow down its acquisition strategy.

The group's entrepreneurial approach is spiced by the involvement of three Belgian industrialists, who provide moral support for the group's deals. Popowsky refers to them as "mentors". They are: Dominique Collinet, who heads Carfin, an industrial holding company; Phillippe Fabry of Socfin, a plantations group which also has banking interests; and the Noel family, which heads the building materials company NMC.

A fourth mentor is about to be added to the existing backers.

The role of the industrialists is purely supportive: they have the knowledge and connections which can smooth Ace's way. The mentors do not have to dig into their own or their companies' pockets unless they decide they want to invest in Ace's buy-in targets.

"The mentors have a very passive role," says Popowsky. "They don't intervene in the selection of targets or the buy-in negotiations.

"They don't intervene in the management of the companies, hut they have the right to invest in the acquisitions, up to a maximum of 50 per cent of the equity."

With the mentors' backing, Ace is now looking outside Belgium. Companies in France, West Germany and the Netherlands will soon find out that the Belgian entrepreneur is alive and kicking.

Andrew Hill

Staff stage a buy-out

AN ILLITERATE bus driver came to Avis's suburban New York headquarters last year, one of 16 employee-owners chosen by colleagues around the US to represent them at the annual company meeting.

"From his presentation to us it was clear he understood exactly what employee participation and ownership meant to him," said Mr Joseph Vittoria, chairman of the car rental company.

Though some in the company were sceptical when Mr Vittoria and senior managers launched a $1.75bn employee buy-out in 1987, they have quickly cottoned on to the practices and benefits of self-ownership.

Their Avis shares jumped from $5.22 in November 1987 to $15.47 last November at the once-a-year valuation made by an outside trustee. "You don't have to have a financial education to understand that," Mr Vittoria said.

Avis, with its 12,500 staff contributing significantly to its turnround, is often cited as the leading example of Employee Stock Ownership Plans (Esops) in the US. In total some 1.5m employees have majority control through Esops over some 1,500 companies. The number is growing rapidly as the financial and operational benefits become more widely known.

The key to success, Mr Vittoria never tires of preaching, is to fully involve employees in making decisions. Only if they see their suggestions implemented, are they fully committed to the company.

Among Esop-owned companies, those who tap employees' ideas have grown 11 per cent faster than those which continue old-style staff-manager relations, according to a study by the National Centre for Employee Ownership.

"If you're a sick company, an Esop won't salvage anything. But if you're a healthy company and you teach, tell and explain to employees the process of participation, then you'll reap the rewards of their greater motivation. Companies used to have suggestion boxes but then the companies became too complicated. But now we have a mechanism to implement and reward those suggestions."

The crucial element is the Employee Participation Group at each Avis location strung across the country. Although the flow of ideas is a continuous process, thousands of employees walk off the job at 2pm on the first Thursday of each month to meet with managers to talk over suggestions. Management also feeds back to employees a lot of information about their company's performance. "We give them the same figures we give our bankers," Mr Vittoria said.

And the figures have looked good. Avis has increased its operating profit from $16m in 1987 to $79m in 1988, the first full year of the Esop, and to $94m last year.

Stiff price competition and other difficult conditions have made life hard for the car rental industry this year. Avis, number two in market share, fell to an operating profit of $10m on revenues of $277m in the first quarter. It points out, though, that Hertz, its arch rival and market leader, had an operating loss of $3.2m on revenues of $475m.

The satisfaction of Avis's customers has also increased markedly. Service-related complaints fell 35 per cent to 1,238 in the year after the buy-out. Avis also increased its market share until this year when it slipped a point to around 27 per cent after it decided to forego some price cuts to maintain profits.

Avis was in relatively good shape when the employees took control in 1987, thanks to a major rebuilding of the company in the previous five years by Mr Vittoria and his management team. Once it had a strong reputation for efficient and friendly service, but inflexible control by conglomerate owners had left it on the ropes.

"There was a phalanx of MBAs between me and the parent company. It was hard to get any message through," Mr Vittoria said. The number crunchers insisted, for example, that Avis use cars stripped of the extras renters demand. This saved some $30m to $40m in acquisition costs a year but left Avis with a lot of hard-to-rent cars.

It was further destabilised by having five owners in five years up to 1987. When the last wanted to sell, Mr Vittoria and his colleagues seized on an Esop as the best way to end employees' confusion and loss of enthusiasm caused by constantly shifting corporate goals.

The employees horrowed $1.75hn for the buy-ont, although some $1bn of that was to refinance its fleet debt. With the tax breaks that Esop borrowing attracts, Avis's interest burden has not been significantly different from that of its competitors, Mr Vittoria said.

The core debt used to purchase Avis's shares and which carries the highest interest rates totalled only $395m. It will likely be paid off within the next five years, he added. The shares will be fully distributed to employees within the next 17 to 20 years.

In the meantime, employees' share holdings continue to grow slowly in volume terms but rapidly in value terms as the debt is paid down the company's performance improves. The shares are priced on factors such as the strength of the company's balance sheet.

In addition to the share allocations to all employees, some 300 managers are eligible for additional share options.

Roderick Oram

A calculated gamble

THE ELEMENT of a gamble inherent in any management buy-out or buy-in will come as little novelty to the three men who have taken over Crockford's, one of London's best known and most upmarket casinos.

Yet it might appear highly risky to pay £50m for a luxurious Mayfair gaming club at a time when Britain'e leisure companies are all bemoaning the scarcity of high-rollers, those very rich gamblers who have in the past hrought huge profits to the capital's casinos.

Mr Garry Nesbitt, 47, the new chairman of Crockford's, can certainly point to a formidable entrepreneurial track record.

In 1971 he founded Our Price, the independent recorded music retailer. It was floated in 1984 and by the time the chain was bought by W H Smith for £46m in 1986, Mr Neshitt's original £900 stake was worth £8m.

But Mr Neshitt was not always a millionaire. He was 19 when in 1961 he started work as a gaming room valet at Crockford's, which at that time was in Carlton House Terrace. In 1964 he joined Mecca Sportsman to open popular-style casinos.

Mecca Sportsman was bought by Grand Metropolitan in 1970 and by 1974 Mr Neshitt was a director of GrandMet, in charge of casinos. He left in 1979 to take up the full-time role as chairman and managing director of Our Price, in which he had been playing a non-executive role.

It was through Mecca Sportsman that Mr Nesbitt met the other two members of the Crockford's management buy-in team.

Mr David Gray, an actor, and Mr Peter McNally, a draughtsman, both joined Mecca as part-time croupiers in 1966 to earn some extra cash. By 1977, both had risen to become directors of Grandmet's London casinos.

Mr Gray,48, joint managing director, is in charge of all "front of house" activities at Crockford's, welcoming members, overseeing the gaming and the running of the restaurant and bar.

Mr McNally, 47, his fellow managing director, has more of a backroom role, in charge of training, security and cash-control systems.

So why did these old friends decide to strike out on their own, at a time when many were saying that the golden days of London's top casinos had gone forever? Their starting point was the belief that owner-operators would be more likely to succeed in what has become an "over-shopped" market.

Mr Nesbitt said: "In the boom times, companies made money – anyone could. But their approach is corporate, rather than personal. We believe that as owner-occupiers we will be able to offer members an evening out in a grand house, in addition to all our gambling facilities."

The starting point was the belief that owner-operators would be more likely to succeed

The premises are clearly crucial to such a conception and in 30 Curzon Street, Crockford's has very grand facilities indeed. Built by Robert Adam in 1760, the club is being reorganised and refurbished to bring out the full splendour of the original ceilings and fittings.

Mr Nesbitt said the main attraction of Crockford's was its location and name. The present club has a long – if rather tenuous – connection back to William Crockford, the son of an impoverished fishmonger, who was born in 1776. Brought up in poverty around Temple Bar, his ability to calculate odds rapidly enabled him to win £1,700 at cribbage – with which he bought into a gaming club in St James's.

In 1828, "Old Crocky" opened palatial new premises in St James's, where the fine food and wine served helped to attract a glittering membership, headed by the Duke of Wellington, who was prime minister at the time. His club died with him, to be resurrected as a bridge club 80 years later. Crockford's then moved to Carlton House Terrace, becoming a gaming club once more in 1961.

For the freehold, licence and goodwill of all this history and tradition, the buy-in team paid the Brent Walker Group £50m in March. The package, organised by Midland Montagu Ventures, comprises £22.5m in equity, £10.5m in mezzanine debt and the rest in senior debt. The equity syndicate, led by Midland Montagu, consists of Murray Johnstone, Mercury Asset Management, Prudential Venture Managers and Hambro European Ventures. The equity element is made up of £20m in preferential shares, with the rest in ordinary shares.

The mezzanine and senior debt was arranged by Samnel Montagu Specialised Financing. In the mezzanine they were joined by First Britannia, Mercury Asset Management and Creditanstalt Bankverein, and in the senior debt by Standard Chartered, Creditanstalt Bankverein and Midland Bank. The mezzanine is over seven years with a margin of 4 percentage points over Libor, the London interbank rate.

So what sort of bet is this, to gear up at a time when the top-end of the market is flat and – on the most recent figures from the British Casino Association - the amount gambled last year in casinos fell 7.2 per cent to £1.1bn?

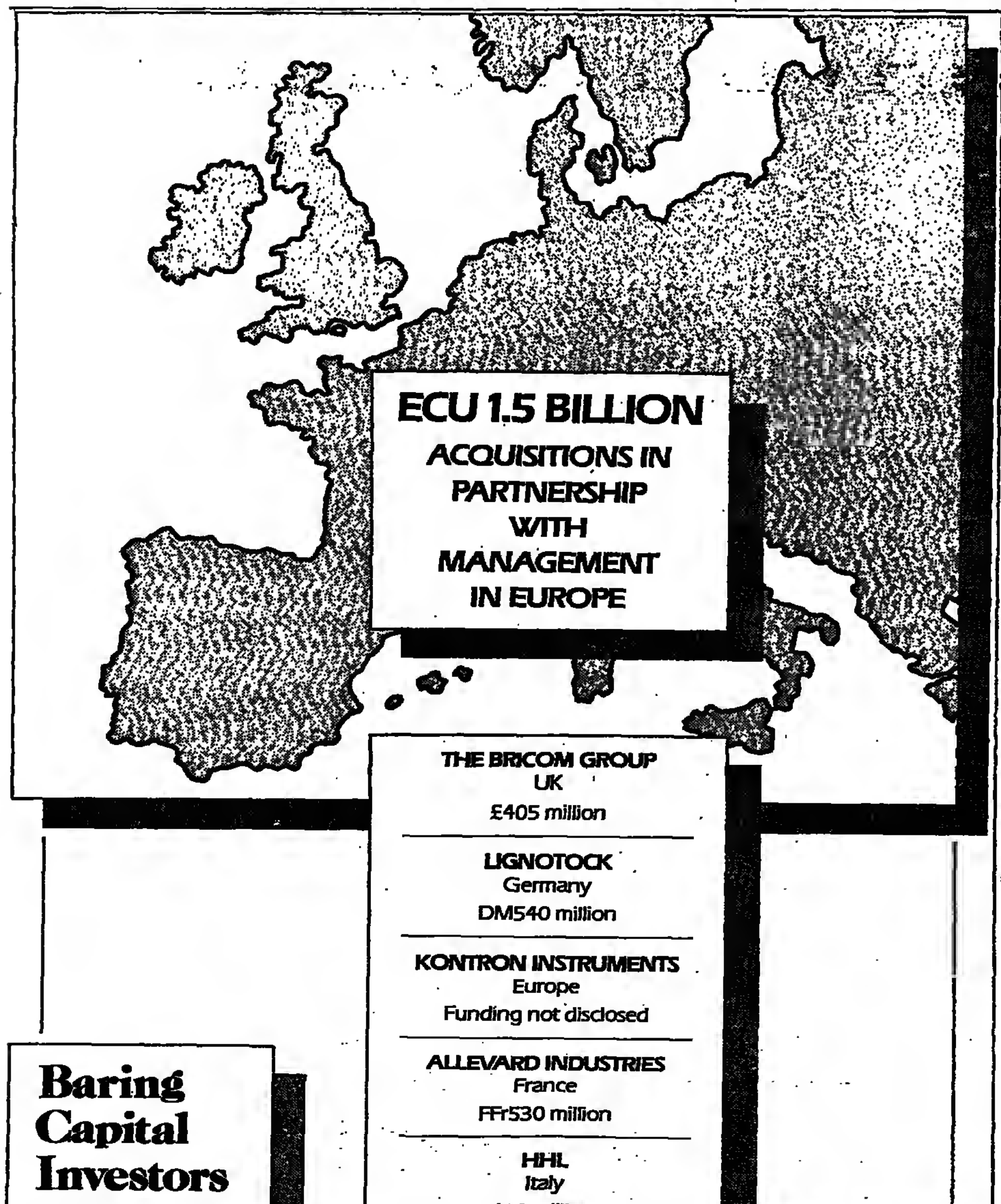
Mr Nesbitt is unabashed: "Nothing is easy when base rates are 14 per cent. It is particularly tough when the mezzanine finance is four points higher. But at worst we expect to make a good profit. If boom times return, you can make stupendous profits."

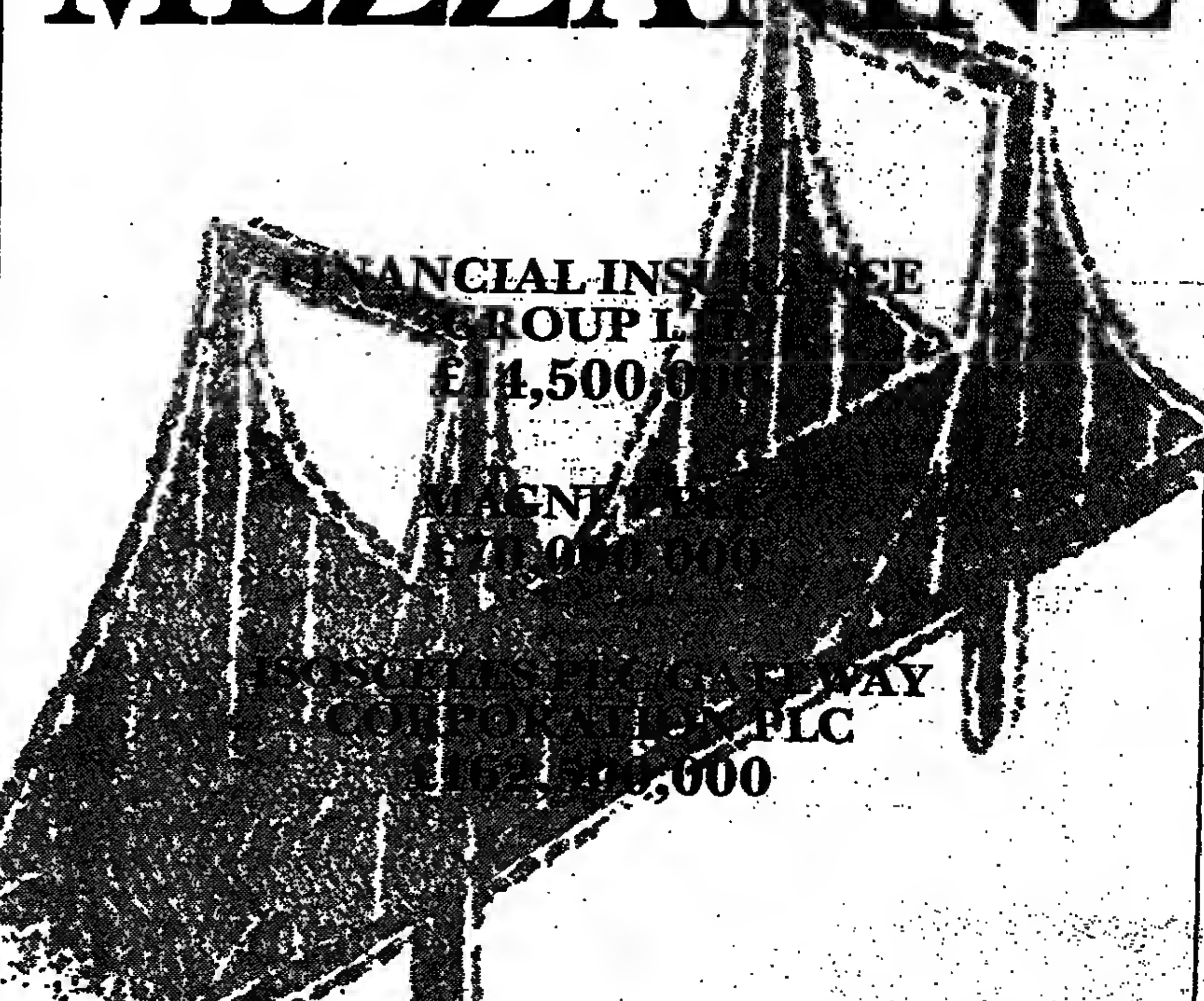
One warning Mr Nesbitt would sound to managers contemplating this sort of move concerns the levels of fees involved. He said: "It cost us £3m to raise £50m. I don't think the fees we paid were out of line, but it is a very big slug."

But perhaps the rules and procedures of the normal business world cannot be applied directly to a top casino such as Crockford's, where it is not unusual for a single member to win or lose more than £1m in a single evening.

Mr Nesbitt said: "If a client wins £1m we give him a cheque, which he will cash the next day. If he loses £1m, he will inevitably give us a cheque in a foreign currency which will take up to two weeks to clear. With those sort of cash-flow problems, you just have to have a good relationship with your bankers."

Andrew Bolger





Ian Hamilton Fazey on the north of England

Market remains strong

ON THE face of things it might appear that management buy-outs in northern England are in decline. For example, Investors in Industry (3i), which has offices in Manchester, Leeds, Liverpool, Sheffield, Hull and Newcastle upon Tyne, gives the following figures.

In 1987, 3i was involved in 19 deals worth £58m. Last year it supported more deals — 26 — but they were worth only £25m, suggesting a shift into something smaller.

In fact, 3i's 1987 figures were severely distorted by just one deal, the buy-out of Moores Furniture in Whitby, which cost £40m. Removing this gives *18 deals* worth £18m. In that light, 1988 represents growth.

The point is emphasised when the first three quarters of 1989 are compared. So far, 3i in the north has done 20 deals worth £25m. Mr Charles Richardson, the Manchester director, says there are more in the pipeline, so that 1988 should be surpassed in both volume and value.

It is the relatively small value of most northern buy-outs that differentiates the northern market from the south.

The contrast can be appreciated by studying Peat Marwick McLintock's regularly updated national management buy-out statistics. Peats divides the market into two — buy-outs over £10m in value and those below.

Thus in 1986 there were 29 of the bigger deals worth an average of £33m each, compared with 360 buy-outs worth less than £10m, the average value of which was £3.6m. A year later, 33 bigger buy-outs averaged £78m each while 480 smaller ones averaged £6.4m.

The great leap forward came in 1988, when 54 bigger buy-outs were completed at an average price of £79m. The smaller fry also multiplied, with numbers of deals rising to 560 and their average value stepping up to £8.6m.

The first half of this year has shown a much more noticeable change in the nature of bigger deals. There were nevertheless 32 of them, but their average value dropped to £47m. But smaller buy-outs kept up well, with 320 deals worth an average £5.7m each.

In other words, there appear to be more smaller deals. With 3i's *northern deal average* in the £1m to £1.25m range, it will be obvious that the north is at the tiddler end of the market, where enthusiasm for buy-outs is still strong.

Mr Peter Rickitt, of Rickitt Mitchell & Partners, a Manchester corporate finance boutique, says: "We're not as glitzy as them down there, you know. If anything, we have noticed an increase in corporate finance activity as the economy has slowed down.

"Buy-outs still provide a very good alternative to sale or flotation for the small private business. Where they have declined dramatically is among high profile, highly leveraged deals because of high interest rates.

Mr Rickitt believes that many founders of smaller businesses become uneasy when their business start making more than £1m a year and look for ways of realising their capital.

Mr Paul Mitchell, his associate, says: "We are doing no *more or less than two years* ago. Buy-outs are a very good way for owners of private companies to get their hands on their money.

"A lot of northern ones are private buy-outs, such as in family businesses where the managing members of the family buy out the non-managing ones. This sort of buy-out is on the increase. The company's profit level is usually in the £300,000 to £1m range and the value of the company is in the £1.5m to £5m region."

The north has hundreds of such private businesses. They are usually stable, often in their second or third generation of family ownership, with enough inheritors to have diluted ownership among a network managing and non-managing family members who can sometimes get in each others' way.

The development of the buy-outs market has fulfilled a demand, which has in turn been encouraged by the financial and professional services sector.

Peats and 3i, for example, have run series of impressive roadshows and seminars in the north in recent years to educate business owners and managers about the possibilities. Some *of the* present *activity* must be partly attributable to this sort of promotion.

One recent bigger northern management buy-out was last month's £14m deal involving Country Holidays, which claims to be Britain's biggest holiday home rental business. Mr Philip Green, the founder, wanted to disengage for per*sonal reasons and was tempted* by an offer from Airtours, another successful north-east Lancashire company.

The offer gave him an idea of market worth but it was his professional advisers in Leeds who told an almost disbelieving Mr Green that his modestly paid managers might be able to raise enough for a buy-out.

In fact, 3i and Barclays Development Capital took 70 per cent of the equity between them and Mr Green and his family kept some themselves, so the management does not yet own much of the business, but the deal kept it in the hands of the team which helped Mr Green build it up.

They will now move towards flotation in three to five years, when their backers hope to make substantial profits.

However, this was an unusual northern buy-out. Mr Rickitt says that in most cases the management takes more than 50 per cent — the smaller nature of the deals means they can afford to do so — and they will almost never float or sell.

He says that small buy-outs have also been encouraged by the end of the bull market in October 1987. When companies were changing hands at eight times earnings, the tendency among, say, family members wanting to realise their capital, was to sell the lot to maximise everyone's return.

Now prices are down to around five times earnings. Rickitt Mitchell reckons this is about right for most businesses and affordable for many managements wanting to be the purchaser.

Mr David Wilkinson, director of 3i's three Yorkshire and Humberside offices, says: "I don't think there is a rule on prices: very good companies *will always command* very good prices.

"Things are still very strong in the north. I don't think there is a slowdown, although high interest rates means that people are paying much more attention to the way we can structure a deal. They are looking more for equity rather than debt."

In spite of high interest rates and the slowdown in the national economy, most northern professionals remain optimistic. The buy-out market in the north looks like remaining strong for some time.

CASE STUDY: IMI MOULDINGS

Mr Plastics moulds jargon

OF COURSE it had to happen. In this age of jargon-speak, with buy-out being followed by buy-in, it was only a matter of time before someone decided that one of those was not sufficient to describe their situation. So the jargon moves a stage further — to the management buy-in buy-out.

The phrase has been coined by Mr George Humphries, managing director of Opella Holdings, which until June was IMI Mouldings, of Hereford. He and his five directors and a chairman bought out the company from its parent IMI, formerly Imperial Metal Industries — itself an off-shoot of ICI.

The new term comes about due to the history behind the purchase. Mr Humphries has been a plastics moulding man for most of his working life, and set up the plastics division for Arthur Lee, a Sheffield steel company: "I was Mr Plastics for them."

Last November he heard that IMI Mouldings, another plastics moulding company, was having financial problems and that most of the directors had left.

He approached IMI to suggest what would have been a buy-in, was taken on as managing director with an option to purchase, and the deal went through seven months later. Hence "technically it's a buy-in buy-out," he says.

He describes the company he took on as mismanaged. IMI had set up the company to make plastics taps and valves when it saw the need for cheaper versions of its own metal products. But, says Mr Humphries, IMI and its managers had no experience of plastic as a material — and neither did most of the directors brought in to the Hereford off-shoot.

"They had got manufacturing and factoring mixed up. They had two sets of people — twice as many people as needed — and two sets of machines. They got people in who knew nothing about the materials; they had two or three MDs in the last year.

"They had 30 quality control inspectors — now we have seven. Scrap rates were high, and some parts were costed for twice the raw material content to allow for making two." In its last full year to December the company made a loss of £1.2m.

But the problems that Mr Humphries saw in his first five minutes of looking at the place delighted him. "It was in such a mess that I decided it had so much potential, particularly if I could get it at a discount."

The key to a buy-out, he reckons, is getting good people: "What they (the venture capitalists and banks) are backing is a team, not assets, so in buy-outs the team is absolutely vital."

The business plan was put together in four weeks from the end of March, when an audit was done to set a value on the company. The final price was "very near the asset value" of £4.5m. Only £250,000 was raised in equity, the rest in loans from venture capital firm Summit. Of that £250,000, 40% was venture capital, the rest supplied by the team members. Mr Humphries' put in 30%, or £75,000.

The redundancies that he felt were needed were made while the company was still owned by IMI. *He admits there* was some hostility, but both he and others reckon the work-force knew things were wrong and that there was a sort of relief when something was done.

A payroll of 360, which Mr Humphries describes as "a wound, through which the blood was trickling out as wages," was cut to its present 270.

Outdated moulding equipment was replaced at a cost of £370,000. And the product range is being improved and expanded. The company makes plumbing parts sold through DIY stores, either pre-packaged and labelled with the stores' own brands, or through the company's own Opella brand. It also makes and assembles parts for other companies' products, such as cases for Brother printers. Mr Humphries plans to extend the company's water filtration and health-care sectors.

He expects the company to be at "breakeven or slightly worse" at the end of its truncated first year, at the end of September. Mr Humphries plans to raise turnover from its present £12m to about £18m a year by 1992, £3m to be due to exports. He is targeting the US and Europe, and wants to lift exports from virtually nothing now to about 20% of turnover. A tap and bath range developed for continental Europe should be introduced in 1991, ready for the liberalisation of trade barriers the following year.

He admits that a reason for doing buy-outs is the money the participants should be able to make for themselves, as long as the buy-outs are successes.

He thinks they bring out the best in the team members: "What's that saying? There's *nothing like the threat of execution* to focus the mind." But he is aware of the strain that has been put on his home life, and he has one telling comment: "You hope to only do it once."

Elisabeth Tacey

James Buxton sums up the scene in Scotland

Buy-out mood positive

"MANAGEMENT buy-outs make an important difference in a regional economy," says Mr Norman Murray, a director of Charterhouse Development Capital. "It can mean local people buying back control of a business from larger, possibly more remote groups.

"And once they've done that they should provide work for local professionals such as *auditors and public relations* firms which might have been dooe outside the region before."

In 1988 Scotland had 8.52 per cent of all the MBOs in Britain as measured by the number of deals, according to the Centre for Management Buyout Research at Nottingham University.

Furthermore, the average size of the deals was only £10.5m — low compared with figures for the south-east of England. And that average was reached partly because of the £93.1m buy-out of Invergordon Distillers, a leading whisky company, from Hawker-Siddeley late last year — until mid-1988 the largest MBO to take place north of the border was the £10m MBO of Exacta Circuits from STC in 1986.

The level of MBO activity in Scotland is roughly what one would expect for a country which began enjoying the recent UK economic boom later than many other parts of the UK and where the business community has been slower to gain self-confidence.

"The mood is still positive in Scotland," says Mr Mike Pacitti, local director of Investors in Industry (3i) in Edinburgh. "We've got the message across to people in Scotland that they shouldn't discount the idea of a MBO."

If Scotland is producing slightly less than its fair share of MBOs, Scottish practitioners of the art of the MBO are almost certainly getting more than their fair share of MBO business in the UK. Charterhouse, a subsidiary of the Royal Bank of Scotland Group, is a leading player on the UK stage, and its Scottish office was involved in deals totalling £191m in the year to September 1989, in which it invested £21.3m. These deals did not only concern Scotland.

Murray Johnstone, the Glasgow fund managers, are also very important equity investors in MBOs throughout Britain. Other notable players include 3i, and EFT, the Edinburgh-based financial company, and Noble Grossart, the Edinburgh merchant bank.

Meanwhile, Bank of Scotland has been rated the biggest provider of loan finance for MBOs in the UK.

The Invergordon Distillers MBO was not led by one of the Scottish buy-out practitioners, however, but by a consortium led by Robert Fleming, the London merchant bank (which has roots in Dundee, as Scots are fond of pointing out). The impact of the transaction has virtually been eclipsed by the fact that, only 10 months after the MBO, Invergordon is already taking the first steps to getting a full listing again.

After Invergordon the most significant deal in the past year, both for the Scottish economy and the Scottish MBO sector, was that by which Alma Holdings acquired the confectionery interests of Barker & Dobson, the supermarket group, and restructured itself to form Alma Caledonia, now the UK's fourth biggest sweet confectionery manufacturer.

In the £39.75m deal Alma's advisers were the corporate finance arm of EFT under EFT's managing director Hamish Grossart. The long list of equity investors includes such names as Charterhouse, Ivory & Sime and EFT itself. The consequence of the transaction is that Mr Mario Maciocia, Alma's executive chairman, is now running a Dundee-based group whose turnover has risen from £1.2m in 1963 [illegible] £60m and which includes famous product lines such as Keillers butterscotch.

Another MBO which is restoring corporate autonomy to Scotland took place in May this year when a team led by Mr Murdoch McMaster bought seven Scottish department stores from House of Fraser. Mr McMaster was formerly a director of House of Fraser with responsibility for its whole stores network. The stores, in towns such as Ayr, Stirling and Banff, operated under the names Arnotts or Fraser under House of Fraser. Now, under McMaster Stores, which is based in Ayr, they have reverted to the names under which they traded before House of Fraser acquired them.

Mr McMaster and two other directors, along with Charterhouse, paid House of Fraser about £6m for the stores, with Charterhouse's investment being £1m. The stores director of the new company is Mr Graeme McMaster, Mr McMaster's son.

Charterhouse also led the deal whereby the directors of Tulloch, an Inverness construction company, bought back the company from Sir Alfred McAlpine for £4.75m. When McAlpine's acquired Tulloch in 1985 there was some resentment in Inverness that a local company had become two divisions of a major corporation based in the south of England.

The directors bought back the construction division, leaving the quarrying division with McAlpines, and are now expanding into the Glasgow area.

MANAGEMENT BUY-OUTS 12

LARGER MANAGEMENT BUY-OUTS 1981/1989 (TOTAL FUNDING IN £m)

	1981	1982	1983	1984	1985	1986	1987	1988	1989 to date
£10m – £25m	Famous Names (8) Hornby (10) Gleneagles (13) *Ansafone* (14)	Isis (8) Stanley Gibbons (9) Stone (18) *Amalg Foods* (21)	SPP Group (9) E and Am Ins (10) Thermalite (12) Victaulic (15)	Westbury (18) DRI (22) Paragon (24)	Brymon Airways (9) Evans Halshaw (10) *Cullens (10) Bison (10) Willis Faber (10) Tibbet & Britten (10) Essanelle (11) A.J.Archer (12) Record Ridgway (13) Secure Homes (13) Royco (13) Bellwinch (13) Ellerman Lines (15) V Thornycroft (19) Wades (19) Bradstock Ins (20)	Exacta (10) KDG Instruments (11) Jeyes Hygiane (11) *Maccess* (11) Partco (11) Trend (12) Furmanite (12) Gomme (12) European Ind Ser (12) Intercraft Designs (15) Cundell Corrugated (15) Nestor BNA (15) Computing Devices (19) Technitron (21) Berkertex (23)	Leyland Bus (10) *Acal (10) RFS Industries (10) *Life Sciences Int (11) Venture Plant (11) Porth Dec Products (12) Holliday Dyes (12) Janson Green (13) Clairmont (14) *New Scotland Ins (15) AVO (15) Serco (15) Gold Crown Foods (15) Aqualisa Products (16) Aynsley China (18)	*Burn Stewart (10) Kirklees Chemicals (10) Radstone Tech (10) Celebrity CP (10) National Express (10) Lowfield (11) Motor World (11) Burlington Int (12) AMG Inds (13) Harrap Columbus (13) *Autoclenz (13) Film Finance (14) Grampian CF (15) Lowndes Lambert (16) Peerless (18) Maccess II (18) ABI Caravans (20) John Perring (21) Welland Homes (21) Travellers Fare (21) *Eurupean Brands (21) Meteor (22) Yorkshire Rider (23)	*Busways* (10) Citylab (10) *Range Valley (11) *Abacus (11) Seckers *Silks* (11) *Haigh Castle (12) *Hill Leigh (13) *Ratcliffs (13) Tallent Eng (13) Valor Stoves (14) *Country Casuals (14) BREL (14) May Gurney (15) *British Air Ferries (15) Geest CD (17) *Britannia Data Mgt (18) Mercado (18) Oyez (20) Harland & Wolff (21) *Hamleys (21) *Themes Int (22) Barbour Campbell (22) *Rubatex (22)
£25m – £50m		First Leisure (44)	Hugin (26) Timpson (42) Collier (47)	Wordplex (28) Allenwest (29)		Haleworth (25) GBE International (25) *Evans Healthcare* (30) UK Paper (38) City Merchant Dev (40) Norwest Holst (45) *Gillow (45)	Istel (26) United News Shops (29) *Clares Equipment* (29) Crown House Eng. (36) *Raleigh (42) Rentco (43)	Gooding (26) *FJC Lilley (27) Harveys Furnishings (28) Mono Pumps (29) Eurocamp (32) Dwek (37) *Needwood (38) UK Shoes (38) VF Int (39) Alma (40) Goldsmiths (40) Sheffield F'masters (42)	Elizabeth Shaw (25) AEC (28) *Beacon (29) Trinity (31) FFL (31) *Court Cavendish (35) Fenchurch Insurance (35) Norwich Corrugated (36) MBS (38) Dowty Mining (45) Tyzack 948) Illingworth Morris (49)
£50m – £100m		NFC (54)		Target (50)	St Regis (52) Haden (60) Caradon (66) *Mallinson-Denny* (93) Mecca Leisure (98)	Unipart (52) TIP Europe (60) Parker Pen (74) *United Machinery* (86)	BTA (50) Fairey Eng (51) Pontins (60) *Assoc Fresh* Foods (88) *Utd Precision Ind (76) Moores Furniture (80)	*Financial Ins (55) EIP (55) York Trailer (61) Glass *Glover* (62) ITC (70) *Lewis's (74) Palmer & Harvey (85) Crowther's *Clothing* (97) IMS Lycrete (98)	British Syphon (53) *Crockfords (53) United Carriers (55) Kenwood (62) *Square Grip (65) Ryan (70)
£100m – £250m						Premier Brands (102) VSEL (115)	Wickes (120) Int Leisure (157) Compass (160) ASW (181) Lee Int (198) Humberclyde Inv (205)	Invergordon (116) Hollis (120) British Fuels (134) *Argus Press* (207) Virgin (248)	London Clubs (120) MW Marshall (175) Charles Church (203)
£250m and above		*Kingfisher (310)			Lawson Mardon (280)		Hays (255) MFI/Hygena (718)	BPCC (265) *Cope Allman (265) Bricom Inds (405) *Lowndes Queensway (450) Reedpack (805)	Allders (260) Magnet (665) *Gateway (2,375)

Larger management buy-outs are taken as those with total funding of over £10m (with allowance for 1981-86 inflation). UK MBOs include MBIs (indicated by an asterisk), but exclude leveraged acquisitions where the managers' stake is insignificant, refinancings and UK financed offshore MBOs

Source: Peat Marwick McLintock

WEST GERMANY

Two events raise the profile

IF THE success of an idea could be measured by the number of conferences, teach-ins, and seminars it spawned, then management buy-outs would be all the rage in West Germany.

Yet compared with other European countries, the buy-out trend in Germany has been rather leisurely. True, there have been some sizeable deals, which have stimulated considerable interest among both managers and investors.

The notion of the buy-out with its mixture of equity and various kinds of debt finance has not, however, been grasped quite so eagerly in Germany as in, say, France or the Netherlands. Moreover, it has been British groups which have made the running, though German banks and investors are now raising their involvement and participating in more transactions.

Two events this year have contributed to raising the profile of buy-outs in Germany. First, in April, Baring Capital Investors, the Munich-based subsidiary of Baring Brothers, the UK merchant bank, announced what was by far the largest such deal to date in Germany, the DM540m purchase of a relatively little known company called Lignotock.

Specialising in the making of softwood-based compound fibre materials for car dashboards, door panels, seats, and other interior applications, Lignotock has a turnover of around DM500m, employs 2,000 people, and has grown rapidly in the 1980s. Mr Thomas Lück, the head of Baring Capital, said he hoped that the transaction would give buy-outs an extra impetus in Germany.

The second event was the stock market flotation of Ex-Cell-O, a machine tool manufacturer which had been the subject of a DM100m buy-out – then the country's largest – in May, 1987. The company, previously owned by Textron, the US conglomerate, was thus the first in Germany to be bought out by its managers and outside investors and then sold to the public.

Ex-Cell-O, too, was guided through the process by a British investment bank, this time by Schroders, which set up the first German fund, totalling DM140m, specifically aimed at financing buy-outs. The fund is based in Hamburg. It had always been intended to bring Ex-Cell-O to the stock market, but Schroders' managers admit that they had not thought this would happen so quickly.

The German stock market's buoyant performance this year, as well as Ex-Cell-O's own positive earnings trend and the speed with which it pushed through necessary restructuring, contributed to the decision to have it listed in Frankfurt and Stuttgart on the junior *Geregelte Markt* (regulated market) aimed at small companies which are not yet ready for a full listing.

Mr Nicholas Ferguson, the chairman of Schroder Ventures in London, reckons Germans are now less hostile to the idea of management buy-outs than they used to be. "Attitudes are gradually changing." In fact, the steadier pace could be an advantage, now that buy-outs in the US and UK have come under suspicion as a result of the very high prices paid in some deals.

Apart from Barings and Schroders, other British participants in the Germany buy-out scene include Investors in Industry (3i) and Candover Investments, which is a partner in LCB-Candover with London and Continental Bankers, a UK merchant bank in which Deutsche Genossenschaftsbank (DG Bank) has a majority holding.

American institutions which have entered the game include Citicorp and Bankers Trust. Among the home-grown players are the Matuschka Group, headquartered in Munich, and Deutsche Bank through its subsidiary, Deutsche Beteiligungsgesellschaft (DBG), Beteiligung being the German word for participation. Dresdner Bank has also developed its activities in corporate finance.

Apart from the question of finance, how large is the actual buy-out potential among German firms themselves? Undoubtedly, there are numerous suitable candidates among the thousands of small- and medium-sized companies which it is often said make up the backbone of German industry.

Many of these are family-owned concerns with a succession problem which could be uniquely solved by management buy-outs, or through buy-ins where new managers, prepared to put up some of their own cash, are recruited to take over from the previous owner-boss.

Andrew Fisher

UNITED STATES

Debt a stumbling block

EVEN though the long-running US economic expansion shows no signs of ending in the next year or so, a disturbing number of companies bought out by their management are failing.

Like ill-trained or injured athletes, they are falling by the wayside before the long slog to prosperity is over, victims of over-optimistic assumptions about prospects or of changing circumstances. Either way they have stumbled under their heavy debt burdens.

Only a small group of companies have collapsed so far, although the few prominent names among them have severely rattled the junk bond market and unnerved bank lenders, the two primary sources of finance for buy-outs.

Many more have averted disaster, some only temporarily, by refinancing. Often they have done these new deals with minimal publicity, making it hard for analysts to assess the full scale of the difficulties of leveraged buy-outs.

In part the problems stem from the explosion of the buy-out business. The pressure to do deals has forced some players to either pay too much for a company or agree to unrealistic financing terms. The volume and value of leveraged buy-outs rose from 99 worth $3.1bn in 1981 to 316 worth $42bn last year.

"About 10 per cent of large LBOs are likely to need at least some restructuring involving as much as $10bn in refinancing," warns Mr William Henze. He and his colleagues at Jones, Day, Reavis & Pogue, one of the largest US law firms, recently completed a study on LBO restructurings. The failure rate could increase "if the economy turns particularly sour", he adds.

The most notable example is Campeau, the Canadian real estate group which took a $10bn gamble on US retailing with its buy-outs of Allied Stores and Federated 1986-87. Failure to fully turn round the store chains resulted in a severe financial crunch last month which rocked the junk bond market. Olympia and York, the Canadian property and natural resources group, shored up Campeau with emergency finance but Mr Robert Campeau ceded most of the control of the company to his rescuers.

By narrow definition, Campeau is a shaky LBO not a tottering management buy-out – one of Mr Campeau's problems was his inability to retain many of Allied and Federated's senior managers. But the lessons are widely applicable.

A more exact example is Southland, the convenience store chain bought out in 1987 for $4.9bn by the Thompsons, the Dallas family which founded it in the 1920s. Apart from paying too much to keep control in the face of an aggressive corporate raider, the Thompsons have also suffered from a sharp increase in competition. Oil companies are increasingly expanding their petrol stations into convenience store.

In the first half of this year, Southland's sales per store, adjusted for inflation, fell and its profit margins shrunk. Unable to meet its interest payments this year, it is trying to keep its head above water with further asset sales.

Such cases have made junk bond investors far more choosy about new issues. Consequently some large buy-outs have foundered in recent months, or worse the deals have gone ahead but the suppliers of bridge loans to finance the transaction have been unable to sell on their loans or refinance them in the bond market.

This has turned a lot of uncomfortable attention to the buy-out activities of both investment and commercial banks. First Boston and Shearson Lehman Hutton, for example, both have troublesome big bridge loans totalling more than $2bn for each firm.

The lending by commercial banks for highly leveraged transactions is also expanding at a rapid rate.

A number of major US banks have lent more than their total equity, including Wells Fargo, Manufacturers Hanover, Bank of New York, Bank of Boston and Continental Bank. Citicorp, the nation's largest bank had lent as of mid-year $5.3bn, equal to 51 per cent of its equity.

First Bank System, the Minneapolis-based regional banking group, recently became the first major lender to declare it had a problem. It said it would have to place on non-performing status some 11 per cent of its portfolio of leveraged buy-out loans.

The portfolio had grown 32 per cent in the first half of this year as First Bank, following the banking trend, piled into such transactions. Analysts say it is inconceivable that First Bank's problems are an isolated case in the industry.

Few bankers admit as much, but it has become noticeably harder to raise loans from them, buy-out specialists report. However, money is still readily available for the big, solid transactions with which lenders can feel comfortable. This has been the case with two major airline deals and may be the case with a slew of retailing buy-outs on the cards.

Roderick Oram

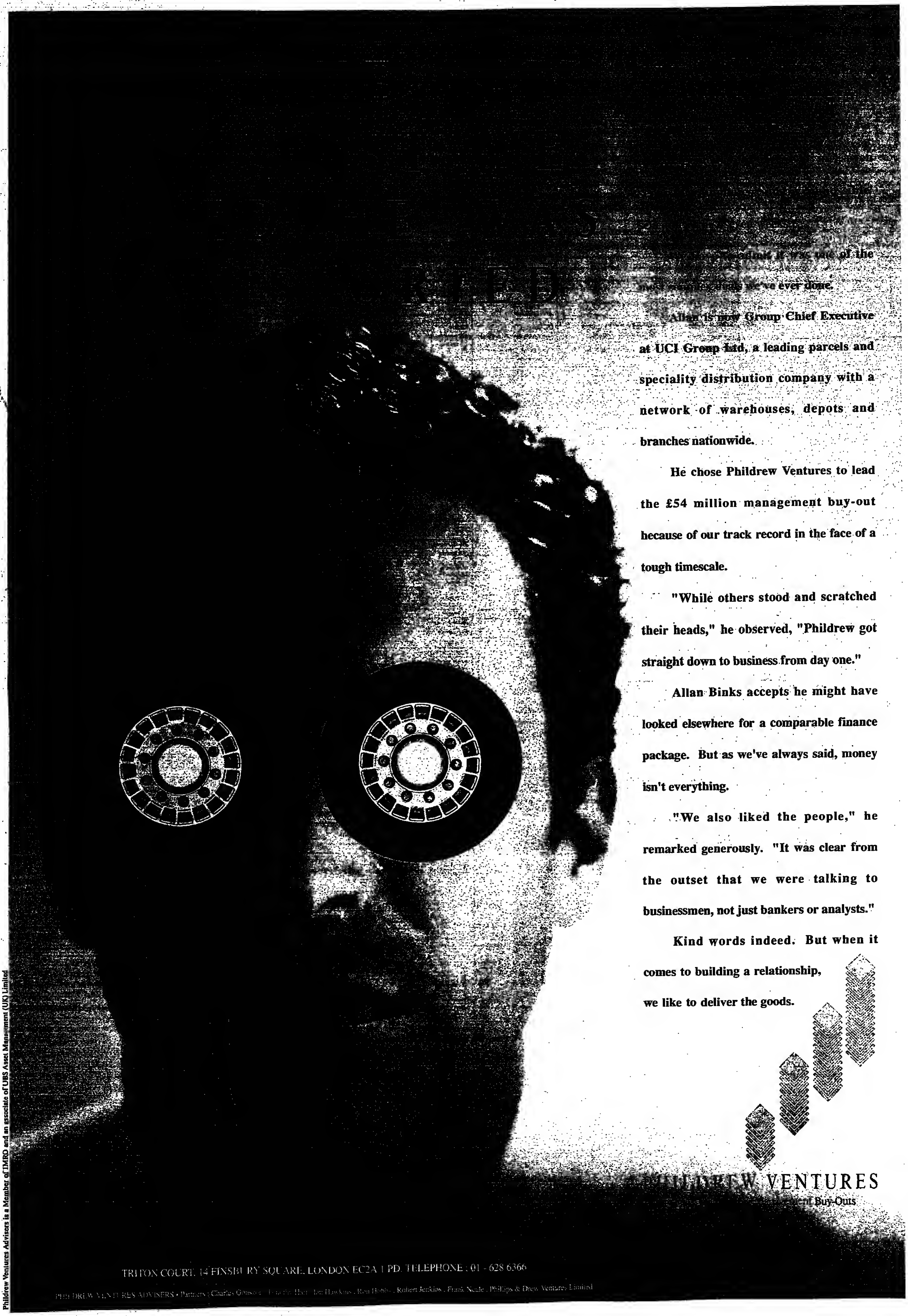
Deal Leaders of larger MBOs

	Number of deals: Sole	Joint	Total	Total value £m	Average value £m	Address	Telephone number
Bank of Boston	2	0	2	54	27	39 Victoria Street London, SW1H 0ED	01-799 3333
Bankers Trust Company	12	1	13	1,792	138	1 Appold Street, Broadgate London, EC2A 2HE	01-726 4141
Barclays Development Capital	7	0	7	154	22	Pickfords Wharf, Clink Street London, SE1 9DG	01-407 2389
Candover Investments	11	6	19	1,183	62	8-9 East Harding Street London, EC4A 3AS	01-583 5090
Causeway	1	1	2	55	28	21 Cavendish Place London, W1M 9DL	01-631 3883
Charterhouse	12	5	17	2,204	130	7 Ludgate Broadway London, EC4V 6DX	01-248 4000
Chase	1	1	2	107	54	Woolgate House Coleman Street London, EC2P 2HD	01-726 5559
CIN Venture Managers	3	2	5	895	179	Hobart House Grosvenor Place London, SW1X 7AD	01-245 6911
Citicorp Venture Capital	9	6	15	383	26	PO Box 199, Cotton Centre Hays Lane, London, SE1 2QT	01-234 5678
County NatWest Ventures	11	1	12	380	32	12 Throgmorton Avenue London, EC2P 2ES	01-382 1000
Edinburgh Financial Trust	0	2	2	62	31	14 Melvile Street Edinburgh, EH3 7NS	031-226 4814
Electra Inv Trust	1	7	8	954	119	65 Kingsway London, WC2B 6QT	01-831 6464
Flemings	2	0	2	127	64	25 Copthall Avenue London, EC2R 7DR	01-638 5858
Foreign & Colonial Ventures	2	0	2	24	12	6 Laurence Pountney Hill London, EC4R 0BL	01-782 9829
Globe Inv Trust	1	1	2	53	27	4 Temple Place London, WC2R 3HP	01-836 7766
Granville	7	0	7	82	12	77 Mansell Street London E1 8AF	01-488 1212
Guidehouse	1	1	2	19	10	Vestry House Greyfriars Passage Newgate Street London, EC1A 7DA	01-606 6321
Hambro Magan	1	1	2	295	148	41 Tower Hill London, EC3N 4HA	01-480 5000
3i	14	7	21	883	42	91 Waterloo Road London, SE1 8XP	01-928 7822
Kleinwort Benson	3	2	5	262	52	20 Fenchurch Street London, EC3P 3DB	01-623 8000
Lloyds Development Capital/Merchant Bank	5	0	5	214	43	40-66 Queen Victoria Street London, EC4P 4EL	01-248 4275
Mercury Asset Management	3	1	4	2,639	660	33 King William Street London, EC4R 9AS	01-280 2800
Midland Montagu Ventures	7	1	8	397	50	10 Lower Thames Street London, EC3R 6AE	01-260 9911
MIM	1	3	4	104	26	11 Devonshire Square London, EC2M 4YR	01-626 3434
Murray Johnstone	1	2	3	37	12	7 West Nile Street Glasgow, G1 2PX	041-226 3131
Phildrew	6	0	6	195	33	14 Finsbury Square London, EC2A 1PD	01-628 6366
Prudential Venture Managers	0	4	4	342	86	Audrey House, Ely Place London, EC1N 6SN	01-831 7747
Salomon Brothers	2	2	4	530	133	111 Buckingham Palace Road London, SW1W 0SB	01-721 2000

Funding of larger management buy-outs

Equity deal Leader		Total funding	Equity	Mezzanine	Debt	Mezzanine deal leader	Debt deal leader
Bank of Boston	National Express	10	n/m	2	8	Bank of Boston	Bank of Boston
	First Leisure	44	24	-	20	-	Bank of Boston
Bankers Trust	Leyland Bus	10	1	-	9	-	Bankers Trust
	Mono Pumps	29	5	4	20	Bankers Trust	Bankers Trust
	City Merchant Developers	46	6	4	36	Bankers Trust	Bankers Trust
	British Syphon	53	2	15	36	Bankers Trust	Bankers Trust
	United Machinery	86	18	21	47	3i	Bankers Trust
	Mallinson Denny	93	21	-	72	-	Bankers Trust
	IMS Lycrete	98	12	14	72	Bankers Trust	Bankers Trust
	Ryan International	113	27	18	68	Bankers Trust	Bankers Trust
	Oval	146	37	15	94	Bankers Trust	Bankers Trust
	International Leisure	157	53	35	69	Bankers Trust	Bankers Trust
	Cope Allman	265	53e	-	212e	-	Bankers Trust
	Magnet	665	110	190	365	GE Capital/ Bankers Trust	Bankers Trust
Barclays DC	Evans Halshaw	10	1	5	4	Barclays	Barclays
	Celebrity Centre Products	10	3	3	4	BZW	Barclays
	Victaulic	14	5	-	6	-	BZW
	BREL	14	3e	-	11e	-	-
	Gold Crown Foods Ltd	15	5	5	5	BZW	Barclays
	Eurocamp	32	15	15	2	BZW	Barclays
	NFC	59	6	-	51	-	BZW
Barings	Bricom Industries	405	39	30	336	3i	Standard Chartered
British Linen	Gleneagles	14	14	-	-	-	-
Candover	Famous Names	8	5e	-	3e	-	Nat West
	Motor World	11	7	-	4	-	Bank of Scotland
	Valor Stoves	14	6	3	2	Candover	Bank of Scotland
	Ansafone	14	6	-	8	-	Nat West
	LowndesLambert	16	9	-	7	-	NatWest
	Stone	18	8	-	10	-	Charterhouse
	Berkertex	23	10	-	13	-	Bank of Scotland
	Allenwest	29	17	-	12	-	Bank of Scotland
	Timpson	42	3	-	39	-	County NatWest
	Kenwood	62	17	15	30	Nat West	Nat West
	Caradon	66	17	15	34	General Electric PF	Bank of Scotland
Candover Murray Johnstone	Telent Engineering	13	6	-	7	-	Bank of Scotland
Candover SUMIT	Perfco	11	3	-	8	-	Bank of Scotland
Causeway	Bellwinch	13	4	-	9	-	Midland
Causeway/Schroders	Sheffield Forgemasters	42	11	-	31	-	Bank of Scotland
Charterhouse	A.J.Archer	12	3e	-	9e	-	Charterhouse
	Secure Homes	13	5	2	6	3i	3i
	Ellerman Lines	15	4e	-	11e	-	Kleinwort
	AGI Caravans	20	4e	-	16e	-	RBS
	Oyez	20	7	4	9	Charterhouse	Barclays
	European Brands	21	7	5	9	BZW	Chase
	Tyzack	48	13	-	35	Chase	Charterhouse
	Unipart	52	17	-	35	-	Barclays
	Crowther's Clothing	97	17	24	56	Charterhouse	S.G. Warburg
	Argus Press	207	67	-	140	-	Chemical Bank
	Kingfisher	310	140	-	170	-	RBS
	MFI/Hygena	718	183	50	485	Chemical Bank	Chemical Bank
Charterhouse/Citicorp	Meccess I	11	5	-	6	-	Standard Chartered
	Wades	16	5e	-	14e	-	RBS
Charterhouse/Murray Johnstone	Burn Stewart	10	4	-	6	-	Standard Chartered
Charterhouse/Salomon	Lowndes Queensway	450	200	-	250	-	Charterhouse
Chase Manhattan	Pontins Holidays	60	3	6	51	Chase Manhattan	Bank of Scotland
CIBC	Grampian CF	15	1	3	11	CIBC	CIBC
CIN	Furmanite	12	6	-	6	-	NatWest
	Beecon	29	14	-	15	-	Credit Agricole
	Readpack	805	210	-	595	-	Chemical Bank
Citicorp	KDG Instruments	11	5	-	6	-	Bank of Scotland
	European Industrial Services	12	4	-	6	-	Citibank
	Cundell Corrugated	15	4e	-	11e	-	Citibank
	Geest CD	17	7	-	10	-	SecPac
	Hamleys	21	7	-	14	-	NatWest
	Gooding	26	3	-	23	-	Citicorp
	United News Shops	29	6	-	23	-	Standard Chartered
	TIP Europe	60	20	-	40	-	Bankers Trust
	United Precision Industries	76	22	10	44	Citicorp	Standard Chartered
Citicorp/Bankers Trust	Trinity	31	4	5	22	Bankers Trust /Citicorp	Bankers Trust/ Citicorp
Citicorp/CIN	Paragon	24	8e	-	16e	-	Den norske Creditbank
Citicorp Guidehouse	Hornby	10	6e	-	4e	-	-
County NatWest	Venture Plant	11	5	-	6	-	Nat West
	Holiday Dyes	12	4	-	6	-	Hong Kong & Shanghai
	AMG Industries	13	2	1	10	County NatWest	Nat West
	New Scotland Insurance	15	5	10	0	County NatWest	-
	British Air Ferries	15	4	-	11	-	Standard Chartered
	Aqualisa Products	16	14	-	2	-	Nat West
	Aynsley China	18	3	8	12	County NatWest	Nat West
	Vosper Thornycroft	18	10	-	8	-	Standard Chartered
	Maccess II	18	6	-	12	-	Standard Chartered
	Harveys Furnishings	28	28	-	0	-	-
	Charles Church	203	70	33	1 00	County NatWest	County NatWest
Drexel Burnham Lambert	Rubatex	22	4	7	1 1	First Britannia	Midland Montagu
Electra	Haden	60	20	15	25	PIC Capital	PIC Capital
Electra/Candover	Dwek	37	16	-	18	-	Bank of Scotland
	Rentco	43	5	8	30	Standard Chartered	Standard Chartered
	Fairey Engineering	51	15	-	36	-	Samuel Montagu
	Humberclyde Investments	205	61	-	144	-	ANZ
	Hays	255	100	-	155	-	BZW
	BPCC	265	28	40	197	Standard Chartered/3i	Standard Chartered
Electra/Scandinavian Bank	UK Paper	38	11e	-	27e	-	Scandinavian Bank
Flemings	Life Sciences Int	11	2e	-	9e	-	
	Invergordon	115	28	21	67	Fleming Mercantile IT	Bank of Scotland
Foreign & Colonial	Essanelle	1	2	-	6	-	Dennorske Creditbank
	Hill Leigh	13	7	-	6	-	Barclays
Gartmore	Citytab	10	2e	-	8e	-	Barclays
GE Capital	Financial Ins. Group	55	1 0	1 5	30	GE Capital	Toronto-Dominion Bank
Globe	Abacus Health Care	11	3	-	6	-	RBS
Globe/Shearson Lehman	Raleigh	42	3	-	39	-	Standard Chartered
Granville	Isis Industrial Holdings	8	2	-	8	-	Lloyds
	RFS Industries	10	3	-	7	-	Barclays
	Jeyes Hygiene	11	6	-	8	-	Midland
	Haigh Castle	12	2	2	8	SecPac	SecPac
	Record Ridgway Holdings	18	5	-	8	-	RBS
	Autoclenz	13	6	-	7	-	Credit Agricole
	Serco	15	5	-	10	-	Barclays
Grosvenor VM	Ratcliffs	13	4	-	9	-	Scandinavian Bank
Guidehouse	SPP Group	9	3e	-	6e	-	PRIVATbanken
Hambro Magan	Fenchurch Insurance	35	7	6	22	Intermediate Capital Group	Nat West
Hambros	Hugin	26	9e	-	17e	-	
Hill Samuel	Wordplex	28	24	-	4	-	Bank of Scotland
3i	Acal	10	1	3	6	3i	Barclays
	Radstone Technology	10	5	-	5	-	Midland
	Tibbet & Britten	10	3e	-	7e	-	Lloyds
	Exacta	10	5	-	5	-	Bank of Scotland
	Lowfield Distribution	11	4	-	7	-	Barclays
	Trend Communications	12	5	-	7	-	NatWest
	Nestor BNA	15	6	2	4	3i	Nat West
	Peerless Plastics Packaging	18	6	5	7	3i	Barclays
	Computing Devices	16	6	-	11e	-	-
	Travelers Fare	21	12	3	6	3i	Nat West
	Meteor	22	3	-	19	-	Nat West
	Associated Fresh Foods	68	13	10	45	3i	Standard Chartered
	Moores Furniture	80	30	10	40	3i	Nat West
	Compass	160	60	30	70	3i	Nat West
3i/ Citicorp	Technitron	21	15	-	6	-	Den Norske Creditbank
3i/County NatWest	Harrap Publishing Group	13	6	3	4	3i/County NatWest	Nat West
3i/Mercury/ Charterhouse	Allied Steel & Wire	161	96	-	65	-	S.G. Warburg
3i/Prudential	Gomme	12	6	-	6	-	3i
	Westbury	18	12	-	6	-	Midland
3i/Prudential/ Manchester Exchange	St. Regis	52	24	-	28	-	Nat West
3i/Warburg	Wickes	120	62	28	30	3i	Continental
James Capel	Needwood	38	17	4	17	SecPac	SecPac
Kleinwort	Bradstockinsurance	20	5e	-	15e	-	Kleinwort
	Istel	26	11	-	15	-	Lloyds
	British Fuels	134	45	10	79	Kleinwort	Kleinwort
Kleinwort/Chase	Collier	47	8e	-	31e	-	Midland
Kleinwort/Salomon	Court Cavendish	35	8	7	19	Kleinwort/Salomon	Salomon
Lloyds DC/MB	Sekers Silks Ltd	11	3	-	8	-	Midland
	Thermalite	13	7	-	8	-	Lloyds
	Evans Healthcare	30	6	11	13	Bank of Boston	Nat West
	Norwest Hoist	45	15	-	30	-	Lloyds
	VSEL	115	35	40	40	Lloyds	None
Lowe Finance SA	John Perring	21	3	-	16	-	Nat West
Marshall	Themes International	22	e	-	18e	-	RBS
Mercury	DRI	22	e	-	15e	—	
	York Trailors	61	3	-	43	-	S.G. Warburg
	Gateway	,375	90	375	1,800	GE Capital	S.G. Warburg
Merrill Lynch	Lawson Mardon	280	55	86	139	PIC Capital	Citibank
Midland Montagu	Porth Decorative Products	12	2	2	6	-	Nat West
	AVO	15	3	-	12	-	Midland
	BTA	50	15	-	35	-	Midland
	Crockfords	53	22	11	20	Samuel Montagu	Samuel Montagu
	ITC	70	70	-	-	-	
	Lewis's	74	22	-	52	-	Samuel Montagu
	Mecca Leisure	98	41	-	57	-	Samuel Montagu
Midland Montagu/ CIN	GBE International	25	6	-	16	-	Midland
MIM	Country Casuals	14	3	-	11	-	Bank of Scotland
MIM/Baker Fentress	AEC	28	7	-	21	-	MIM/Baker Fentress
MIM/Edinburgh Financial Trust	Barbour Campbell	22	7	2	13	Bank of Scotland	Bank of Scotland
	Alma	40	16	6	18	SecPac	SecPac
Morgan Grenfell	Target	50	7e	-	33e	-	-
Murray Johnstone	Clairmont	14	3e	-	11e	-	TSB Scotland
Norwich Union VC	Royco	13	/m	-	13	-	Barclays
Phildrew	Kirklees Chemicals	10	4	-	6	-	Toronto-Dominion Bank
	Range Valley Engineering Co	11	5	-	8	-	Nat West
	Mercado	16	5	3	9	Phildrew	Bank of Scotland
	Norwich Corrugated Board	36	13	3	20	Phildrew	Nat West
	UCI	55	23	3	29	Phildrew	Nat West
	Square Grip Industries	65	20	5	40	Phildrew	Nat West
Price Waterhouse	M.W. Marshall	175	34	20	121	SecPac	SecPac
Prudential VM /Hambro Magan	Allders	260	50	-	210		Chemical Bank
Rothschild	Gillow	45	45	-	-	-	-
Salomon	Britannia Data Management	18	2	6	10	Vendor	Salomon
	Lilley	27	27	-	-	-	-
Samuel Montagu	Virgin	248	66	-	182	-	Citibank
Saudi Arabian Investors	EIP	63	5	17	40	Barclays	Barclays
Scandinavian Bank	Intercraft Designs	15	4e	-	11e	-	Scandinavian Bank
Schroders	Cullens Stores	10	3e	-	7e	-	-
	Burlington International	12	3	-	6	-	Standard Chartered
	Haleworth	25	7	-	18	-	Manufacturers Hanover
	UK Shoe	36	8	6	25	PIC Capital	Manufacturers Hanover
	Crown House Engineering	36	11	-	25	-	Credit Agricole
	Goldsmiths	40	13	-	27	-	Standard Chartered
	MBS	41	16	-	25	-	Continental
	Glass Glover	62	16	6	37	Schroders	Standard Chartered
	Parker Pen	74	14	18	45	-	Bankers Trust
SPHG Equity Ventures	Clares Equipment	29	4	5	18	SPHG Equity Ventures	SecPac
	VF International	39	12	-	27	-	SecPac
Standard Chartered	London Clubs	120	19	40	61	Standard Chartered	Standard Chartered
SUMIT	Welland Homes	21	8	-	13	-	Barclays
Unity Trust	Busways	10	1	-	9	-	Cob Bank/Unity Trust
	Rider	23	1	-	22	-	County NatWest
WestPac	Dowty Mining	45	5	5	35	Nat West/WestPac	Nat West/WestPac
None/Not known	Brymon Airways	9	2e	-	7e	-	Manufacturers Hanover
	Stanley Gibbons	9	4e	-	5e	-	Barclays
	Willis Faber	10	3e	-	7e	-	-
	English & American Insurance	10	3e	-	7e	-	-
	Bison	10	n/m	-	10	-	Bank of Scotland
	Janson Green	13	3e	-	10e	-	-
	Film Finance	14	3e	-	11e	-	-
	May Gurney	15	3	-	12	-	Barclays
	Harland & Wolff	21	4e	-	17e	-	-
	Amalgamated Foods	21	8e	-	13e	-	Nat West
	Elizabeth Shaw	25	4	-	21	-	-
	FFL	81	6	-	25	-	-
	Illingworth Morris	49	n/m	-	49	-	Bankers Trust
	Palmer & Harvey	85	n/m	25	60	BZW	Barclays
	Premier Brands	100	n/m	-	100	-	Bankers Trust
	Lee International	198		-	198	-	Citicorp

In cases of incomplete information the levels of debt and equity has been estimated by applying the average gearing ratio for the year in which the deal took place (marked "e").
Source: Peat Marwick McLintock 15th September, 1989


of the
ever done.
Allan is now Group Chief Executive at UCI Group Ltd, a leading parcels and speciality distribution company with a network of warehouses, depots and branches nationwide.
He chose Phildrew Ventures to lead the £54 million management buy-out because of our track record in the face of a tough timescale.
"While others stood and scratched their heads," he observed, "Phildrew got straight down to business from day one."
Allan Binks accepts he might have looked elsewhere for a comparable finance package. But as we've always said, money isn't everything.
"We also liked the people," he remarked generously. "It was clear from the outset that we were talking to businessmen, not just bankers or analysts."
Kind words indeed. But when it comes to building a relationship, we like to deliver the goods.
VENTURES
Buy-Outs
TRITON COURT, 14 FINSBURY SQUARE, LONDON EC2A 1 PD. TELEPHONE : 01 - 628 6366
Robert Jenkins . Frank Neale . Phillips & Drew Ventures Limited
Phildrew Ventures Advisers is a Member of IMRO and an associate of UBS Asset Management (UK) Limited

ITALY

Outlook for industry looks promising

BUY-OUTS were high on the programme when Rothschild opened its Italian office earlier this year. Financing management and leveraged buy-outs is a major objective of Old Court Italian Ventures, the L112.5bn Guernsey-based investment fund which the bank launched in July. "MBOs are a top priority for the Milan office," states Richard Katz, Rothschild Italia's managing director.

Mr Katz says that the fund, a closed ended operation which will be dissolved at the end of 1999, has aroused considerable interest among international investors. Its advisers are Europa Investimenti, a company established a year ago by five Italians who had gained extensive experience of mergers and acquisitions and LBOs through Citicorp's Milan branch.

Old Court Italian Ventures will aim to complete seven operations over the next three years, though there might be as many as 15. Mr Katz expects that leverage will be four times equity on average, putting L150bn operations within the fund's sights.

"We will not be looking at high technology or at start-up situations because the reward-*risk ratio is unsuitable,*" says Mr Katz. Guided by the fund's advisers, he will be examining opportunities in small- to medium-sized unquoted companies in traditional sectors where Italian industry has performed best, such as textiles, engineering and design.

He believes Rothschild's fund should not encounter difficulties in exit from investments. "The stock market will become much broader over the next five to 10 years, so quotation should provide the exit route," he predicts.

That Rothschild's fund is considered a suitable instrument for buy-out operations in Italy is confirmed by San Paolo Finance, the Milan merchant bank controlled by Istituto Bancario San Paolo di Torino, where one is being evaluated. Vittorio Foroni Lo Faro, San Paolo Finance's general manager, *also sees quotation* as being the exit route from his bank's investments.

But Mr Foroni Lo Faro views leverage rather differently than Mr Katz. "We are equity rather than debt oriented," he says, claiming that debt is a by-product of buy-out *operations for San Paolo* Finance. "We don't want to earn by debt creation and syndication. It is a matter of financial equilibrium. I believe that it is wrong to burden companies so that their only objective for five to 10 years is cash-flow for debt repayment."

Mr Foroni Lo Faro expects that many second tier LBOs *involving small companies* will be undertaken, and that there will be a growing number of operations linked to turnround situations. But notwithstanding the interesting opportunities, these are not areas where San Paolo Finance, which has two operations nearing comple*tion, will be active.*

Where the bank becomes involved it will emphasise its "Italianness". "A highly personal approach is needed in dealing with Italian businessman. Flexibility is fundamental," says Mr Foroni Lo Faro. He believes the strict deadlines and formats for financial reporting which are required by foreign financial institutions are unacceptable in Italian buy-outs.

"Foreign banks are correct to recognise a growing market for buy-outs in Italy. But if they fail to take account of the local mentality they will not succeed," predicts Mr Foroni Lo Faro.

Nevertheless, Citicorp is widely recognised as Italy's leading buy-out institution, a rating reinforced by Rothschild's reliance on a former Citicorp team for its plunge into the Italian market. The US institution's three operations in 1988 have been followed by a further three this year, allowing it to claim more than half of the major buy-outs completed in Italy during the past two years.

"This year there have only been four buy-outs worth more than L20bn and Citicorp has done three," says Carlo Brambilla, vice-president of Citicorp Venture Capital.

At Nazareno Gabrielli the Citicorp team assisted one of the firm's four partners to buy out the other three. Citicorp's stake amounts to 30 per cent of equity.

At the end of June Citicorp announced its second big operation of the year, though Morando was more a buy-in than a buy-out.

Having sold his brick machinery business to the Agnelli's Unicem cement group in 1981, the original owner has now re-acquired a controlling stake.

Citicorp's third Italian operation was a classical management buy-out, two years of negotiations being completed in mid-September to give 17 managers at Ilpea a 42.5 per cent shareholding in Europe's leader in refrigerator seals. Though they provided nearly L3bn of their own funds, Ilpea's managers are running a highly geared business which sees L18bn of mezzanine finance in addition to L70bn of senior debt.

'If foreign banks fail to take account of the local mentality they will not succeed'

Though Citicorp has won the reputation for leading Italian buy-outs, its position is contested. Accountants Reconta Touche Ross claim that they recorded Italy's first when its managers bought the firm from parent Mediobanca at the beginning of 1981.

However, the Touche Ross claim is not unreservedly accepted. The Sopaf-Finnova group records its first operation in 1980, an MBO with leverage involving the Zerowatt "white goods" manufacturer.

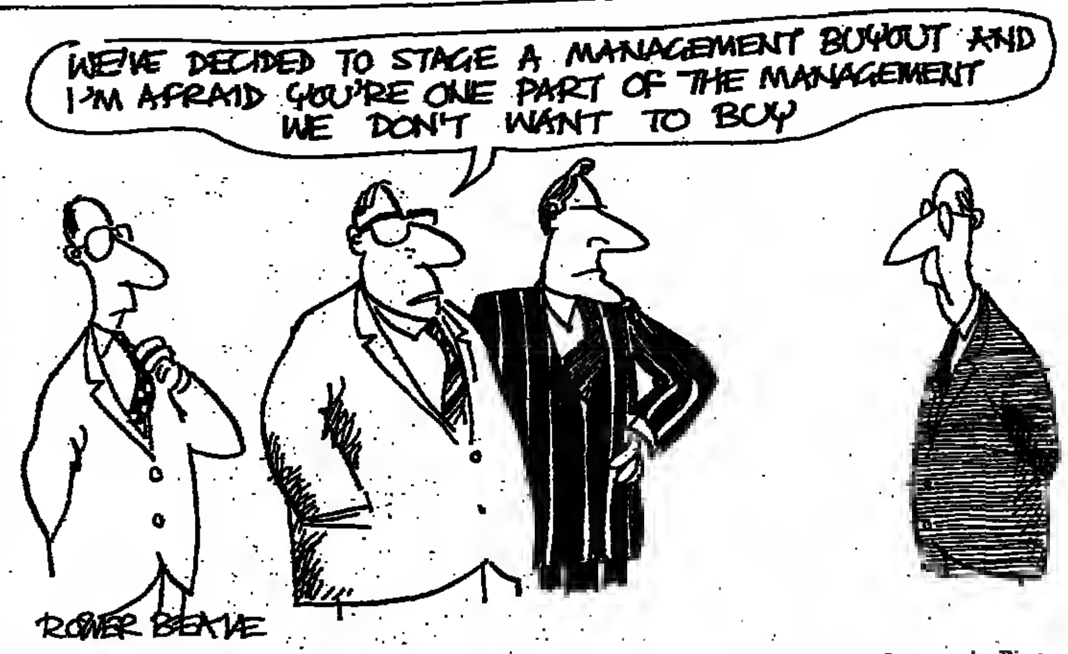
That Sopaf-Finnova's operations have been ignored by large institutions like Citicorp owes something to their size. None of the transactions exceeded L30bn.

David Lane

UK LARGER MANAGEMENT BUY-INS 1983/89 (total funding in £m)

£m	1982	1985	1986	1987	1988	1989
Under 25		Cullens (10)		Acal (10) Life Sciences Int (11) New Scotland Ins (15)	Burn Stewart (10) Autoclenz (13) European Brands (21)	Range Valley (11) Abacus (11) Haigh Castle (12) Ratcliffs (13) Hill Leigh (14) Country Casuals (14) British Air Ferries (15) Britannia Data Mgt (18) Hamleys (21) Rubatex (22) Themes Int (22)
25-50			Gillow (45)	Raleigh (42)	FJC Lilley (27) Needwood (38)	Beacon (29) Court Cavendish (35)
50-100				Utd Precision Ind (76)	Financial Ins (55) Lewis's (74)	Crockfords (53) Square Grip (65)
100+	Kingfisher (310)				Cope Allman (265) Lowndes Queensway (450)	"Gateway (2,375)"

Larger managment buy-ins are taken as those with total funding of over £10m.
*MBIs are taken as UK deals involving a change of management control, but exclude deals treated as MBOs, UK financed offshore MBOs, leveraged refinancings & subsequent acquisitions.



AUSTRALIA

Breakthroughs into corporate limelight

THE Australian management buy-out industry took some significant steps in 1989 to overcome the classic "chicken and egg" problem that's been holding back its development.

First, the leveraged MBO technique was used in two of *the country's largest takeovers* — Mr John Elliott's audacious A$5bn-plus privatisation of Elders IXL and Mr Abe Goldberg's A$2bn tilt at Industrial Equity Ltd (IEL).

And, second, a troublesome financing gap for MBOs was plugged with the launch of two funds for mezzanine finance raising a total of more than A$300m.

Both these breakthroughs pushed Australian MBOs into the corporate limelight and helped the technique to gain some much needed respectability.

MBOs are now regarded as a legitimate alternative method to recapitalise businesses, rather than a fringe activity used mainly by sharp corporate paper shufflers.

In a climate where many highly-geared entrepreneurs have crashed ingloriously, MBOs have understandably attracted scepticism.

For most of the 1980s, the technique largely remained outside the comfort zones of Australian investors, even though it has become the predominant method of corporate acquisition in the US.

But with the number of MBO deals growing, and no major failures, investors began to shed some of their reluctance, especially after the 1987 share crash.

By that year, the private Byvest group and the Midland bank-controlled Dominguez Barry Samuel Montagu (DBSM) had managed to launch two dedicated MBO funds, largely through quasi-equity investment from institutions.

And some large organisations, including Citicorp, the Security Pacific-backed Fulcrum group and the Federal Government-controlled Australian Industry Development Corporation (AIDC) also closed deals and added depth to the market.

The chief executive of Citicorp Capital Investors, Mr Ian Lansdowne says corporate boards have become much more receptive to MBOs over the past two years.

"MBOs are now always considered as an alternative method to recapitalise businesses," he says. "Two years ago, many directors would have asked what an MBO was."

The joint managing director of Byvest, Mr David Saunders, adds that the MBO practitioners were initially seen as deal makers and regarded not too differently from fee-driven merchant bankers.

"That's changed now," he says. "The market can see we're putting our own money into deals, and of course, our reputations on the line."

But in 1988, even though a growing number of institutions had become more comfortable *with* MBOs, an important funding gap remained. The specialists were still finding it hard to raise mezzanine funds.

With the number of deals growing, investors began to shed their reluctance

This reluctance was not overcome until late 1988 when Byvest and DBSM two mezzanine funds. They surprised more conservative investors by pulling in the cream of local institutions, including the country's two biggest — the AMP Society and the National Mutual Life Association.

Until this year Australian MBO deals remained small, with few above A$50 million. Now, with the Elders and IEL bids using the technique, and probably involving debt of more than A$7bn, size is no longer a problem. It can no longer be said that none of the bid deals are MBOs.

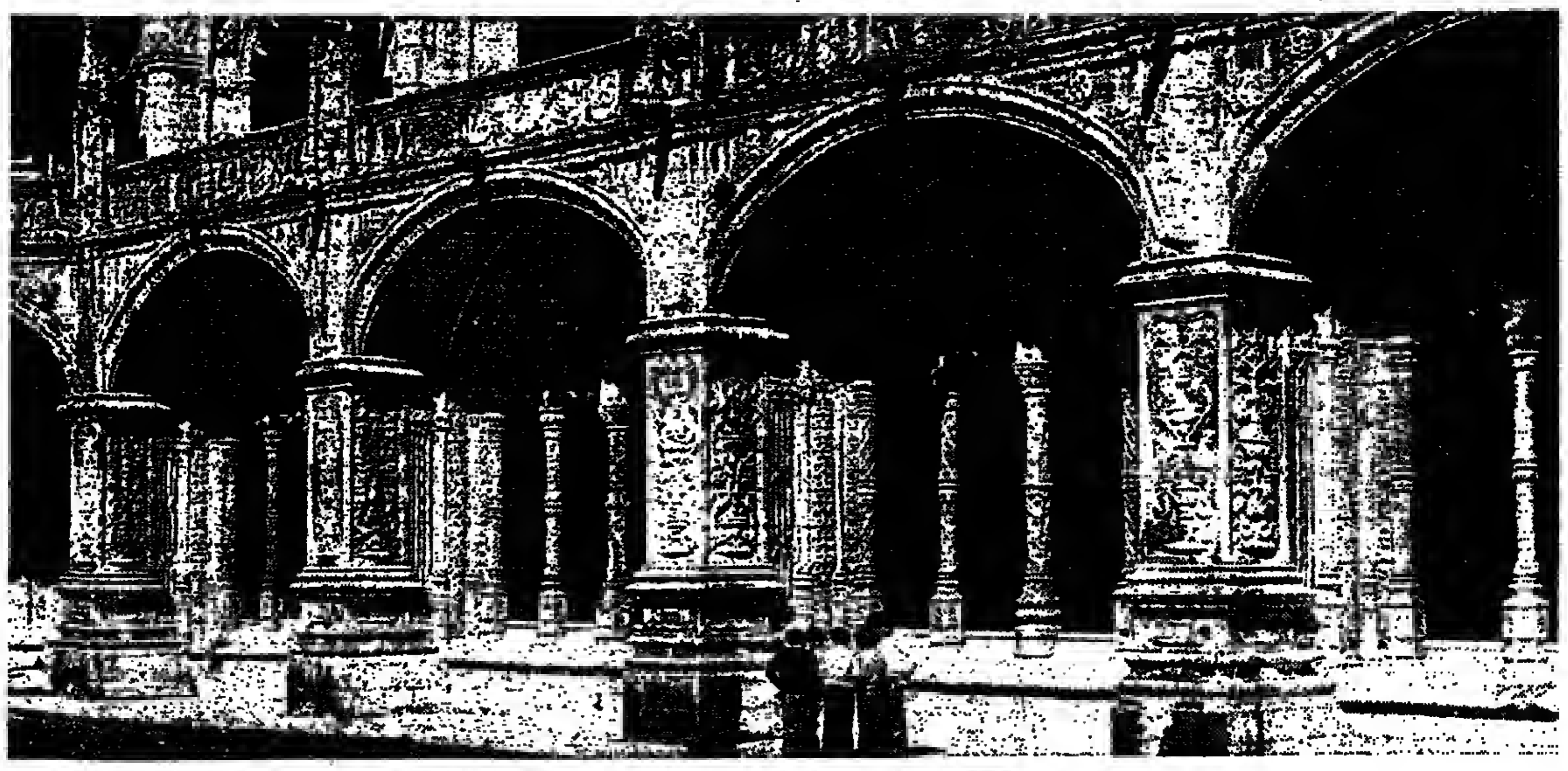
Australia's high interest rate regime, with prime business rates above 20 per cent, obviously mitigates against highly-leveraged deals of any kind. But with a spate of activity so far in 1989, the country now boasts 11 deals worth more than A$50 million, and four above A$100 million if Elders and IEL are included.

Bruce Jacques

SECTION IV

FINANCIAL TIMES SURVEY

Since Portugal joined the European Community, it has been undergoing a visible, radical transformation. The poor man of Europe has gone some way along the modernisation road, writes Patrick Blum. The next hard task is to reduce the weight of the state



PORTUGAL

CONTENTS

□ (left) The Cloisters of Jeronimos Monastery in Lisbon; elsewhere in the country a construction boom is under way

Editorial production
Gabriel Bowman

From ancient to modern

THE MAYOR of Covilha, a small but rapidly growing town of the interior, proudly lists recent local accomplishments: new roads, new factories and workshops, a large hotel under construction.

There are plans also to expand the airport to make Covilha a centre for tourism for the nearby scenic Serra da Estrela mountains — for summer sight-seeing and hiking, and winter skiing, snow permitting. In the early evening, the town centre buzzes to the sound of mopeds and cars screeching to a halt as young men and women gather to flirt and gossip.

It might all be a little too much for the older, more traditional-minded section of the population, but change has come to Covilha, just as it has to countless other towns up and down the country.

And with it has also come a new-found prosperity; modest perhaps by Northern European standards, but significant, especially for Portugal's poorer and less developed interior.

Portugal is undergoing a visible, radical transformation.

Everywhere, there are signs of activity and change. There are many building works in the larger cities where the construction boom has been a godsend to building companies whose order books are full.

Office blocks are rising fast, though office space is still at a premium in Lisbon where demand outstrips supply. Outside the main cities, road works are proceeding apace, creating traffic jams and confusion along the way. The railways are being modernised, airports expanded, and the telephone network is being digitalised, though again, too slowly to meet rising demand for lines.

The impetus for all this change has come from Europe and from a new generation of Portuguese politicians and businessmen eager to modernise their country and bring it back to the European fold after decades of isolation and under-development. The challenges are manifold and not without risks, but the potential rewards are enormous.

For years Portugal suffered from antiquated and over-centralised economic structures, poor infrastructure and communications, neglect of education, inadequate social welfare and housing. The lack of jobs and prospects sent Portuguese, from Covilha and all over the country, abroad in search of a better life.

When it joined the European Community in 1986, Portugal was the poor man of Europe, necessitating much financial and technical assistance to begin the process of catching up with its new EC partners. Three years later, it has already come a significant way along the road to modernisation, though much still needs to be done.

The Social Democratic administration of Mr Anibal Cavaco Silva, has began the difficult task of restructuring the economy and reducing the weight of the state. It is opening up the economy, has embarked on an ambitious reprivatisation programme — the 1975 Constitution which did not permit privatisation of the state sector was revised earlier this year — and is ploughing resources into transport, communications, education and professional training.

At the same time, the Government has begun or already introduced reforms of the tax and financial systems, of agrarian law and labour practices and of the administration.

The reprivatisation of major companies, banks and insurance groups is injecting new life into Portugal's once-sleepy stock exchanges and is encouraging private enterprise. New companies and financial institutions are springing up, offering new services and pressing the Government to accelerate the pace of liberalisation.

With the help of a special EC programme, industry is being modernised in preparation for integration. EC grants and loans from the European Investment Bank are providing a new lifeline to many companies strapped for cash, but wanting to invest in new machinery and equipment.

The imposition of tough credit ceilings and controls in March to curb an inflationary spending spree, combined with high interest rates, have made life difficult for many small and medium-size companies which need to spend more to modernise or expand. The move was widely perceived as a retrograde step from a Government that had made liberalising the financial system a cornerstone of its free market policies.

The economy is showing signs of overheating and inflation has climbed back up to twice the European average. This is worrying those with an eye to the potential impact of full capital markets liberalisation some time after 1992.

Mr Cavaco Silva believes inflation may have peaked and that the current inflationary upswing is the price to pay for high growth rates. "We have chosen to avoid recessive policies simply to achieve lower inflation. We decided not to apply a very strict monetary policy. It was a choice we made in order to promote real convergence (with Europe).

"Otherwise, come economic and monetary union, we could have social, economic and financial disruptions because of the difference in economic development." Real convergence, he argues, depends on economic expansion to close the development gap.

Despite tighter credit, investment has continued to grow at a fast, if slower, rate than in 1988. Foreign investment which doubled in 1988 is expected to more than double this year.

There has been strong international demand for shares in privatised companies, leading to fears and alarmist headlines in some newspapers that the country was being taken over. The authorities say this is an initial reaction, but are confident that the outcry will die down soon.

The high rate of investment in industry has had one drawback. Imports of capital goods have soared which, combined with a strong influx of imported consumer goods, has had worrying and negative effects on the trade balance.

Agriculture — which still accounts for about 20 per cent of the labour force — has not been left out, though change is proving slower and more difficult than for industry.

Most of the large farms are in the South; they were seized during the Revolution and transformed into giant complexes or co-operatives. But there are thousands of small farms — over half of all farms have less than one hectare — whose size renders them inefficient.

Agricultural productivity is low by European standards and methods of exploitation are often archaic. In its latest report on Portugal, the Organisation for Economic Co-operation and Development estimates that in 1985, the number of tractors and the quantity of fertilisers used per hectares were one-third of the EC average. But this also is changing. With financial help from the Community, new techniques and farming machinery are being introduced.

Tourism has developed rapidly, some say too rapidly and uncontrollably, and the authorities want to improve quality. Tourism has been concentrated mostly in the Algarve and, to a lesser extent, in Lisbon.

But the biggest and most immediate challenge is for industry, especially for the thousands of small and medium-size private enterprises that are characteristic of the bulk of manufacturing activity.

Portuguese industry is concentrated in three main activities: textiles and clothing, wood and associated products, china and earthenware.

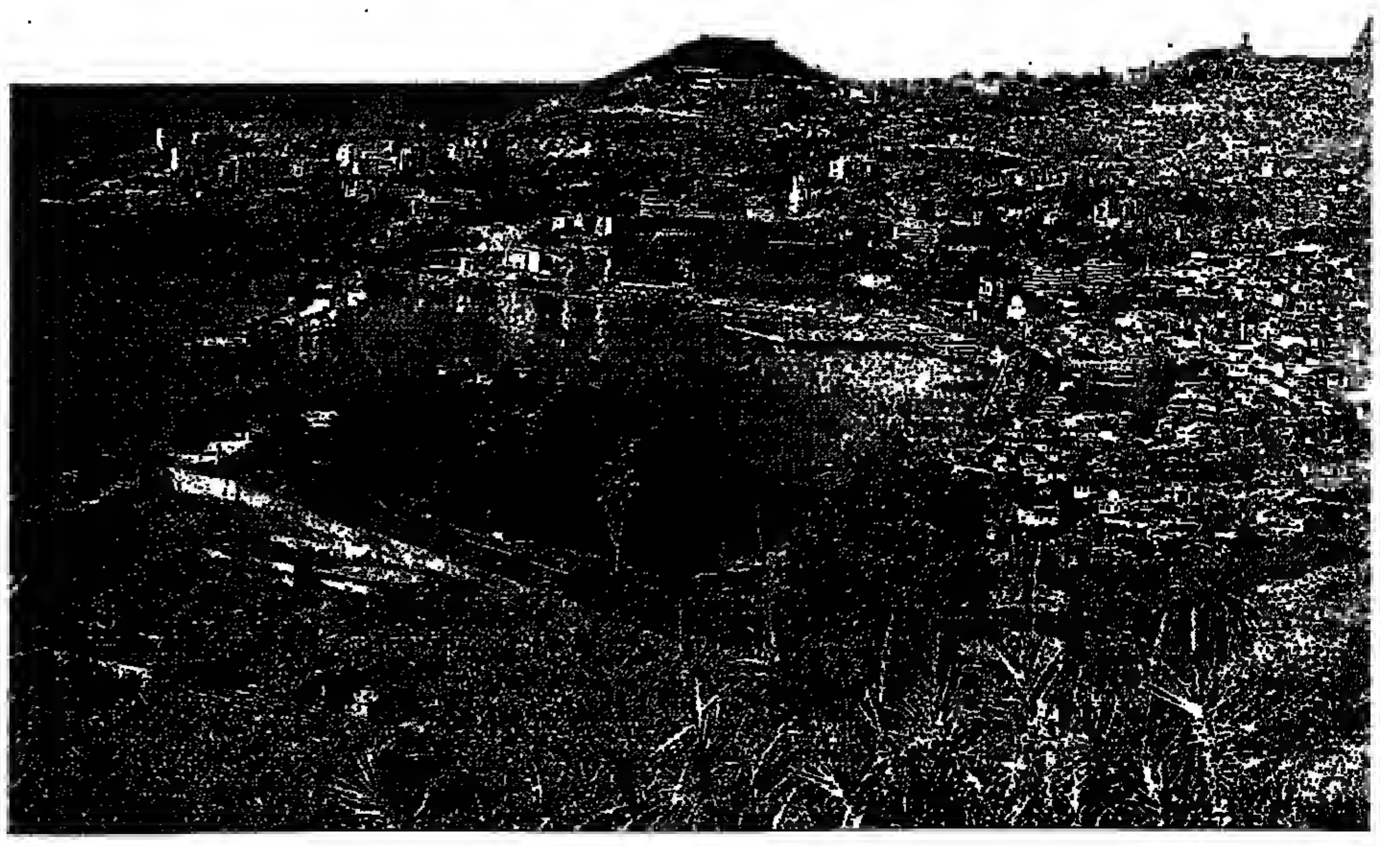
The textile industry is the most important but it faces increasing competition from newly industrialised nations in the south-east Asia. To compete, it will no longer be able to rely on low labour costs, but will have to become more efficient, moving upmarket with better quality, designs and marketing.

This is true of much of Portuguese industry, which will not be able to avoid a painful shake-out on the labour front. Strong growth since the mid-1980s has boosted employment and helped substantially to reduce unemployment, now at 4.9 per cent. But it is difficult to see how such a low rate can be maintained as companies rationalise production. The majority of workers in the textile industry are women, often with low educational levels. To provide them with new jobs, possibly in expanding service industries, will require a special effort in retraining.

Portugal has enjoyed a relatively calm labour scene, but this could change with the threat of lay-offs.

So far, the Government has benefited from a new mood in the country and from the genuine excitement about Europe. In places like Covilha, people take pride in their new-found prosperity, much of it as a result of European Community assistance. But there is a deeper change taking place. A keen European explains it this way: "Of course, there are the utilitarian aspects, but for Portugal to belong to the Community is an immense psychological boost.

"For 500 years we turned away from Europe, now this has changed. What many people overlook is how important the cultural side (of being a member of the Community) is for the poorer countries."



THE ECONOMY

The Governor's bad dreams

THE TASK facing Portugal's economic team is that all-too-familiar balancing act that every planner dreads. The team has to stoke the economy into sustained growth and yet it has to keep an ever-watchful eye on the pressure valve for signs of overheating.

Growth is certainly on line but so also are a rising price consumer index and an increasing deficit. Recent measures taken to right such imbalances amount to greater government intervention and are a step back from the very liberalising and market-orientated policies that had sparked growth in the first place.

In Portugal the juggling trick is particularly difficult because the planners are hampered by limited statistical data, by an unsophisticated administrative back-up and by pressing political considerations that could forestall the continued implementation of those sound "cooling" policies that are beloved by monetary economists and loathed by the voters who keep the politicians in business.

The task is certainly not made easier when the pace of foreign capital inflows is such that it is virtually impossible to gauge the impact they are making on the economy and when the combination of sharply lowered import tariffs, as a consequence of EC entry, and of suddenly increased real incomes, as a result of rapid growth, makes domestic demand management an often baffling exercise.

In an economy where GDP per head is less than $6,000 and where private purchasing power is half the European average, the chance to spend, both publicly and privately, when EC structural and social funds are readily available is an exhilarating experience.

A realistic assessment of the Portuguese economy must necessarily also include its deeply inlaid structural faults. These are at their most evident in Portugal's chronic trade and public sector deficits and in its dangerous dependence on intrinsically volatile invisibles such as tourism and emigrant worker remittances. Some statistics – for example, 23 per cent of the population is under the age of 15 – place Portuguese society closer to that of a developing nation than to a European partner.

There is room, therefore, for concern over this highly vulnerable economy which has only recently begun to build fledgling muscles onto its puny skeleton. After 1992 it will be required to compete in a deregulated, single market with the heavyweight division.

That is, of course, the dark side of the picture. Mr Miguel Cardhile, the Finance Minister, who has masterminded the recent economic spurt, views the current scenario very differently, exuding confidence at every turn.

"Employmant has never been higher, we have more investment than ever and a lower public services deficit, Portuguese companies have the highest savings ratio ever verified and Portugal as a whole has greater financial soundness than ever before," says Mr Cardhile.

The country has built up strong reserves and improved all the ratios of its external debt

The minister, who studied economics at the London School of Economics, is right on all those counts, except, possibly, the last one, and his enthusiasm is understandable.

Portugal has successfully bounced out of a 1983-85 stabilisation plan that was negotiated with the International Monetary Fund. Gross Domestic Product grew an average 0.3 per cent during those lean, get-fit years, and was running at 5 per cent between 1985-87. In 1987 the public sector deficit stood at 11 per cent of GDP against 20 per cent three years earlier and the current account balance finally hoisted itself out of the red to show a small surplus.

In the second half of this decade unemployment fell from 11 to 7 per cent, real wages rose by 3 per cent and inflation plummeted from a 30 per cent year-on-year rise in 1985 to single digits in 1988.

During these boom years Portugal has built up strong reserves and improved all the ratios of its external debt. There has been some long-term repayment and about half the short-term debt has been retired while the remainder has been favourably refinanced.

Buoyed by the economic turnaround, Lisbon's planners drew up the so-called PCEDED, the programme for the structural adjustment of the foreign deficit and unemployment. The annual macro targets for 1987-90 included a 3.7 per cent growth, a 2.9 per cent rise in private consumption and one of 2 per cent in real wages and a 0.8 per cent current account deficit as a proportion of the GDP.

The programme's scenario for 1991-94 forms the second chapter of what looks like a textbook example of superior financial husbandry. Annual GDP growth in the first half of the next decade is targeted to be 4.3 per-cent, private consumption is to be a full point lower at 3.3 per cent, real wages are to increase their pace to a 2.8 per cent annual growth and the current account balance is to move to a 0.3 per cent surplus.

Reality however is beginning to translate Mr Cardhile's bold macro plans into mere wishful thinking. Already last year the PCEDED began to veer off the rails. There was more growth, more real income, much more consumption and far greater deficits than the minister had bargained for. The economy was over-fuelled and the pressure valve looked menacing.

Mr Jose Alberto Tavera Morera, the governor of the Bank of Portugal, reckons that even as the inflation rate was reduced to a mere 8 per cent inter-annual rise in April 1988, the lowest on recent record, there "were already indications that the economy was expanding too rapidly."

At a conservative estimate, demand had been doubling the GDP growth between 1986-88 and imports, on the heels of EC entry, were growing at 20 per cent a year. The effect was muted at the time, thanks to the decline of the dollar and the fall in oil prices, but the structural deficiencies of Portugal's economy soon became glaringly obvious. Politicians were shocked to discover that car purchases last year had risen by 70 per cent.

In March, when inflation was running at 12 per cent, Mr Cardhile's team swung into action. Hire purchase of luxury items, including cars, was severely restricted, credit ceilings were tightened, interest rates on certain deposits went up, foreign borrowings were cut back and compulsory bank reserves were raised to 17 per cent.

The central bank governor now believes that inflation growth while "still worrying", has levelled out at an April 13.2 per cent peak and there are some encouraging indicators that private consumption is slowing down. Mr Tavera Morera has reduced his 1989 current account deficit forecast from $1.5bn to $1bn due, in part, to continuing growth in fixed investment.

Inflation is one of Mr Tavera Morera's nightmares: "our CPI is more than double the EC weighted average and we cannot allow this to widen. We must make consistent progress to narrow the gap." He is highly concerned that should Portugal enter the realms of liberalised capital movements with such an inflationary differential then all the growth achievements of the immediate past will be in jeopardy.

The governor's other recurring bad dream is the public sector deficit which currently stands at between 7-7.5 per cent of the GDP. This is a considerable improvement on the 12 per cent posted in 1985

Mr Tavera Morera is the first to admit that Portugal is in a "catching up process" but he is adamant that fiscal effort has to made to reduce current expenditure.

The question is whether such laudable sentiments will be built into effective policy decisions. Mr Cardhile, whose concerns as a minister include opinion polls and an impending election, can, in contrast to Mr Tavera Morera, sound cavalier-like when he reviews current and future prospects.

The minister dislikes talk about "cooling the economy" and prefers to speak about "stabilising growth and moderating consumption." Warming to his theme he stresses: "We must not make a drama out of inflation. Investment and modernisation are much more important."

Tom Burns

INDUSTRY

European integration forces pace of change

THREE YEARS after Portugal's entry into the European Community and two years before most barriers fall with the completion of the Internal Market in 1992, Portuguese industry is still struggling to modernise.

While many, in government and the private sector, view the prospect of full European integration with optimism, there are not a few fears about the impact to come. Some tough decisions have yet to be taken.

The restructuring of industry has already begun; partly as a result of Government moves to liberalise the economy, including the start of an ambitious programme of privatisations; partly by industry itself which knows that it must change to compete.

Until now, the change has been relatively gentle, but it may well become more painful. Lay-offs are inevitable and many small companies unable or unwilling to adapt will go out of business. As about 91 per cent of Portuguese manufacturing industry falls into the category of small and medium-size, the potential scale of the problem is daunting.

In the textile industry alone, Portugal's largest, which accounts for about a third of export earnings, up to 50,000 jobs out of 170,000 could be lost. This represents a dramatic shake-out whose impact will be more keenly felt in the north of the country, home of the bulk of the textile industry.

Other traditional industries – in footwear, ceramics, wood and furniture, pulp and food processing, which with textiles account for between 60 and 70 per cent of exports and manufacturing employment – will also face difficult if less stark choices.

The picture, however, is not as bleak as it first seems. Many companies, in all sectors, have already made moves to improve their competitiveness and productivity. In some sectors such as the pulp and paper industry, there has already been much change with new production methods and plans for expansion.

Some of Portugal's larger industrial groups, private and state-owned, have been diversifying and aggressively seeking new markets. Food processing has improved and Portugal is now exporting food products to Spain. In the textile and footwear industries some companies are moving towards higher quality textiles and shoes.

The problems are greatest for smaller companies. They are often run by a family and are labour-intensive with low technology. They rely on simple product designs and have limited marketing. "In these small companies, many managers don't know what new technologies are available," says an official of the Industrialist Association of Oporto. Smaller companies have also suffered from the Government's credit squeeze and high interest rates.

Facsimile machines operate at a snail's pace

Nevertheless, investment, Portuguese as well as foreign, has continued to rise at a fast rate, after fears that it might fall off. Fixed capital investment grew by 15.5 per cent in 1988, contributing almost four points to GDP growth, twice the European average. This year it is expected to grow by 12-15 per cent. Foreign investment doubled in 1988 and is forecast to more than double this year.

Until recently, most foreign investment went into real estate and tourism but that is changing, with more going into industry.

The prospect of European integration is causing some older businessmen to sell up, for fear they will not be able to stand up to the new competitive climate. But most accept they must modernise and are receiving help from the Government and the European Community.

The Industry Ministry is channelling funds into modernisation and training which it regards as crucial. Mr Luis Mira Amaral, the Minister for Industry and Energy, says that the Government is investing with the help of EC funds some Es40bn (£156m) a year in vocational training.

He says new equipment is not enough, that anyone with some money can buy a new machine or piece of equipment, but what is really needed is to innovate, to improve quality and design, and to establish better distribution and marketing networks.

The European Community is helping through Pedip, a major programme to help modernise Portuguese industry and provide professional training. Other European financial assistance is helping to modernise the infrastructure, a necessary precondition for the future of industry. New roads and bridges are being opened throughout the country in an effort to improve communications, but much still has to be done, especially in telecommunications.

The telephone network is antiquated and overworked, as anyone trying to make a call between Lisbon and Oporto, the country's two main economic centres, knows only too well. Hours are lost and much energy spent in trying to communicate. Facsimile machines which rely on the telephone network operate at a snail's pace, if you can get the connection.

Mr Joao de Oliveira Martins, the hard-working Transport and Communications Minister, says that demand has outstripped the telephone companies' ability to supply new lines. "Demand has grown very rapidly for new lines as has usage of existing lines.

To improve international links, Radio Marconi, Portugal's semi-public telecommunications company, has joined a consortium to lay a new optical fibre cable between Portugal, France and the UK. Portugal is also gradually converting to digital switching; it plans to introduce mobile car phones and video-text soon.

Welcome improvements in infrastructure and telecommunications will help industry to reduce costs as well as open up new opportunities for industry in the interior of the country. European integration is forcing the pace of change, and if the short-term outlook for industry is stormy, the long-term forecast may be much brighter.

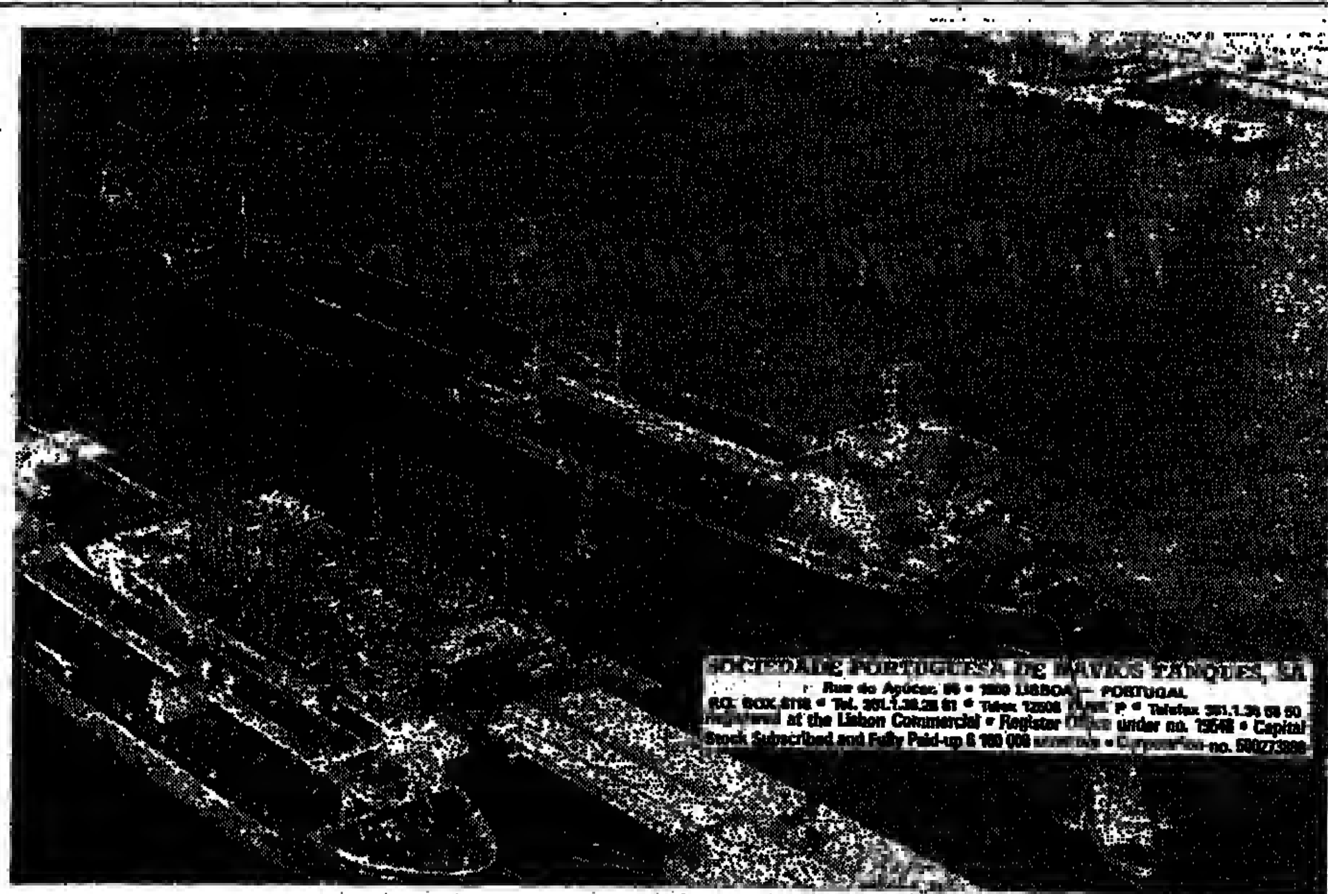
Patrick Blum

KEY FACTS

Area .... 92,100 sq km
Population 10.41m
Prime Minister Anibal Cavaco Silva

GDP per capita (1988) ... $4,016
Purchasing power parities (1987)...... 6,297 (Greece 5,363; Spain 8,681)

Real GDP growth (1988) 4.1%, (1987) 4.7%, (1978-88) 2.8%
Inflation .....(1988) 9.6%, (1987) 9.4%, (1978-88) 18.5%
Merchandise exports .... (1988) $10.71bn, (1987) $9.17bn
Merchandise imports .... (1988) $15.85bn, (1987) $12.55bn
Current account balance .... (1988) -$629m, (1987) +$640m
Total reserves, minus gold (June 1989) $6.3bn
Principal exports (1988).... textiles, clothing and footwear 38.4%, machinery and transport equipment 16.3%, forest products 15.2%
Principal imports (1988).... machinery and transport equipment 37.2%, animal and vegetable products 15%, chemicals and plastics 12.3%
Main export destinations (1988 % of total)........ France 15.4, West Germany 14.7, UK 14.2
Main import sources (1988 % of total)........ W Germany 13.7, Spain 13.5, France 11.5
Tourism: % growth in visitors (1987) 12.5, (1986) 8.4
Net receipts from tourism (1987) $1.73bn
Debt (end 1988) $17.25m
Currency .....100 centavos = 1 Escudo
Average exchange rates (1988).......... $1 = Es143.94; £1 = Es255.18



Cavaco Silva is still confident, though the Government's popularity has slipped

The irritating diversion of elections

THE POLITICAL agenda is crowding in on Prime Minister Anibal Cavaco Silva's Government. With local elections in December, presidential elections in January 1991, and legislative elections in the second half of that year, electioneering has already begun.

All this is not particularly welcome to Mr Cavaco Silva, nor to his Social Democratic Party (PSD), which could face further reversals in the local polls. Though Mr Cavaco Silva is confident enough to predict another absolute majority for his party in 1991, the political infighting is likely to be an irritating diversion from getting on with the job.

The political demands pressed on the Government could detract some of its energies away from its radical reform programme. Mr Cavaco Silva says he will not allow this to happen. "I'm here to do a job and that means accepting some unpopularity if necessary. But I will do what needs to be done however difficult it is, even if there are some misunderstandings."

The Government's popularity has slipped, though this is not unusual for an administration that is a little over half-way through its term of office. Moreover, the Government has sought to carry out wide-ranging and at times unpopular reforms. Mr Cavaco Silva's own somewhat professorial style has not helped. He has been accused of being aloof and arrogant, and of failing to discuss his reforms with those most affected.

Mr Jorge Sampaio, the new leader of the Socialist Party, says the Government has been singularly inept in its attempts at consultation. "If you want to mobilise the country's energies for development you have to discuss it with people. The social dialogue is in crisis." This might be stretching the point, but communications between Government, unions and business have been difficult.

In the short term, Mr Cavaco Silva has little to fear from the opposition. Having won 50.2 per cent of the vote at the last general election, he has a comfortable majority in parliament with 148 seats out of 250. The Socialists remain the second largest party with 22 per cent of the vote. The hard-line Communist Party have 12 per cent and smaller parties on the right and left share the rest.

The PSD is well ahead in the opinion polls, and Mr Cavaco Silva still tops the popularity list among politicians after President Mario Soares, the former Socialist leader. After being elected in 1986, Mr Soares renounced his Socialist Party ties to cultivate a non-partisan fatherly image as President of all Portuguese. As a result his own popularity has grown, earning him the popular nickname of "Uncle Mario."

The President and the Prime Minister have until now lived in a state of peaceful coexistence. But as the presidential contest approaches – Mr Soares enjoys his new role and is expected to run for a second term – relations may become more strained.

Before that, Mr Cavaco Silva will face an important test in December's elections. It will also be a test for Mr Sampaio who is running for mayor of Lisbon. Until the summer, Mr Sampaio's chances looked good, but his less-known PSD rival, Mr Marcelo Rebelo da Sousa, has recently been capturing the headlines with a series of spectacular publicity jaunts in a campaign recalling hustings during US presidential primaries. The outcome may well be close.

The ruling PSD will seek to win back support lost in the European Parliament elections in June when its vote fell by almost 5 per cent compared with the previous European elections to 32.7 per cent. The Socialists, running in a coalition with the small Democratic Renewal Party (PRD), increased their joint vote by 1.6 per cent to 28.5 per cent.

(Above) President Mario Soares; (left) Prime Minister Anibal Cavaco Silva

The Socialist strategy is to build on the small gains made in June, and after that to continue strengthening the party's position in the hope that it can prevent Mr Cavaco Silva from winning another outright majority in 1991. What would happen after that is unclear, but there are fears that it could lead to political change at an awkward time for Portugal.

"After 1991, Portugal needs another four years of political stability. This will be the period of the establishment of the European internal market. It will be the end of the transition period for Portuguese industry, and the beginning of the end of the transition period for agriculture. We need decisions to be studied and implemented," Mr Cavaco Silva says.

"Sometimes I am accused of going too fast"

He believes that the Portuguese electorate will agree with him on the need for continuity. Though he admits that much remains to be done, he says many of the most difficult decisions have now been taken. "We have to move ahead in the financial sector, to improve competitiveness and efficiency. We must reduce bureaucracy and the size of the public sector and restructure some industries. Agriculture is also a major problem because of low productivity, but even there things are already changing."

While almost everyone agrees that changes are needed, not everyone agrees with Mr Cavaco Silva's solutions. "Apart from infrastructure, Government plans focus mainly on the littoral (the coastal strip between Lisbon and Oporto). This is especially worrying for small and medium-size enterprises. There is still a huge gap in education which will take 10 to 15 years to catch up with European standards. The health service is not working properly. There is a continued deficit in housing," says Mr Sampaio.

"Recent studies suggest that most investment goes to areas that are already more developed. The Government does not have a global strategy. So we have high growth that is unevenly distributed. The question is, are we witnessing (the creation of) a dual economy in which the modern sectors are getting more modern while the rest are being left behind?" he asks.

Mr Cavaco Silva rejects such accusations. "Braganca and the interior, for instance, are areas where what we have done makes a real difference. We are investing in the interior, in education – we are making a revolution in education – in roads, in initiatives to encourage productive activity. I think people will recognise that we have done a lot. Sometimes I am accused of going too fast."

With his programme to liberalise the economy, Mr Cavaco Silva may well have gone both too fast and not fast enough to meet rising expectations. How this will translate in the forthcoming elections is uncertain. But Mr Cavaco Silva remains optimistic. "I know it is said that there is no gratitude in politics, but I'm not going to give up easily. The Portuguese people have always shown extraordinary good sense in difficult elections."

Patrick Blum

CONSTITUTIONAL REFORM

A new, flexible era

"IT CAN'T be done. It's unconstitutional."

The phrase had echoed in the ears of many would-be Portuguese innovators ever since June 1976 when Western Europe's loudest constitutional hymn to state capitalism and socialist central planning was approved by a Constituent Assembly, in the wake of a revolutionary onslaught on the country's financial system and its industry and farming.

Revolutionary socialism was popular then: Western capitalism, said the theorists of the far left, was collapsing.

But the revolution failed. Capitalism lived on in Portugal, while the acts of the revolution – nationalisation that threw 53 per cent of fixed investment into the hands of a seriously underskilled state, creation of financial or industrial no-go areas for new private capital, and rejection of the possibility of denationalisation because "you may not touch the conquests of the working classes" – continued to cause shudders and cracks in a structurally-weak economy for over a decade.

In 1982, in the first review of the 1976 Constitution, politicians leaning towards the centre, who had shaved off their revolutionary beards, were eager to be rid of a different revolutionary fungus – discretionary powers of the military over the body politic.

But they spent so much time and effort emasculating the military Council of the Revolution that they failed to analyse whether a Constitution that officially pointed Portugal on the "road to Socialism," with socialisation of the means of production, worker-control of corporations and submission of private enterprise to the body politic, was compatible with anti-state monopoly EC entry, for which their country applied in 1978.

Such soul-searching had to wait until Portugal, burdened by a public debt incurred by the bloated, unprofitable state-run sector and representing 81 per cent of GDP, was on the verge of EC entry in 1985.

That year, Socialists campaigning for an election they lost to the PSD Social Democrats, having once championed "the constitutional road to Socialism," began to speak with EC tongues about reprivatisation, break-up of monopolies, less state and more efficiency – as did the PSD who, in their former guise of Popular Democrat PPD had partly abstained, partly voted for, some of the 1976 Constitution's controversial economic clauses.

After Portugal joined the EC, it became rapidly obvious that if she did not relieve herself of state-run albatrosses, reduce her chronic deficits and debt and start generating more funds for infrastructure, health education and production, she would be at a lasting disadvantage compared with her 11 new partners.

But it took another three years to negotiate and complete a radical review of the 1976 constitution – one that plays down "workers' conquests," introduces the concept of privatisation, unweaves the tangled web of collectivisation of land and ceases to presume that private enterprise is guilty until proved innocent.

The negotiations were between Socialists and Social Democrats, Portugal's main parties, large enough between them with a little help from Christian Democrats and independents, to rally the two-thirds majority needed for constitutional change. They were a measure of Portugal's new mood of EC pragmatism and this year on June 1, some 13 years after centralisation and collectivisation were officially stamped on the national consciousness, the Assembly of the Republic voted by a comfortable majority to begin a new, flexible era.

The "Agrarian Reform" under which Communist commissars and sympathisers and illiterate unskilled farm labourers seized and forcibly-collectivised nearly 4m acres of land in the Alentejo and Ribatejo provinces, has disappeared (forever, private farmers and former landowners hope) from the Constitution.

So have "irreversible nationalisations," "socialisation of the main means of production," – leaving the field open to peaceful co-existence of private, state and co-operative property.

Worker-direction of management is no longer constitutionally compulsory (and had ceased to be practised by 1976 when the cleaners, porters and joiners learned that a revolution did not give them instant skills to run banks successfully, and went back to their old jobs) and the state's blanket constitutional possibility to "enter the management of private enterprise" is softened to "the state may only intervene temporarily in management of private enterprise."

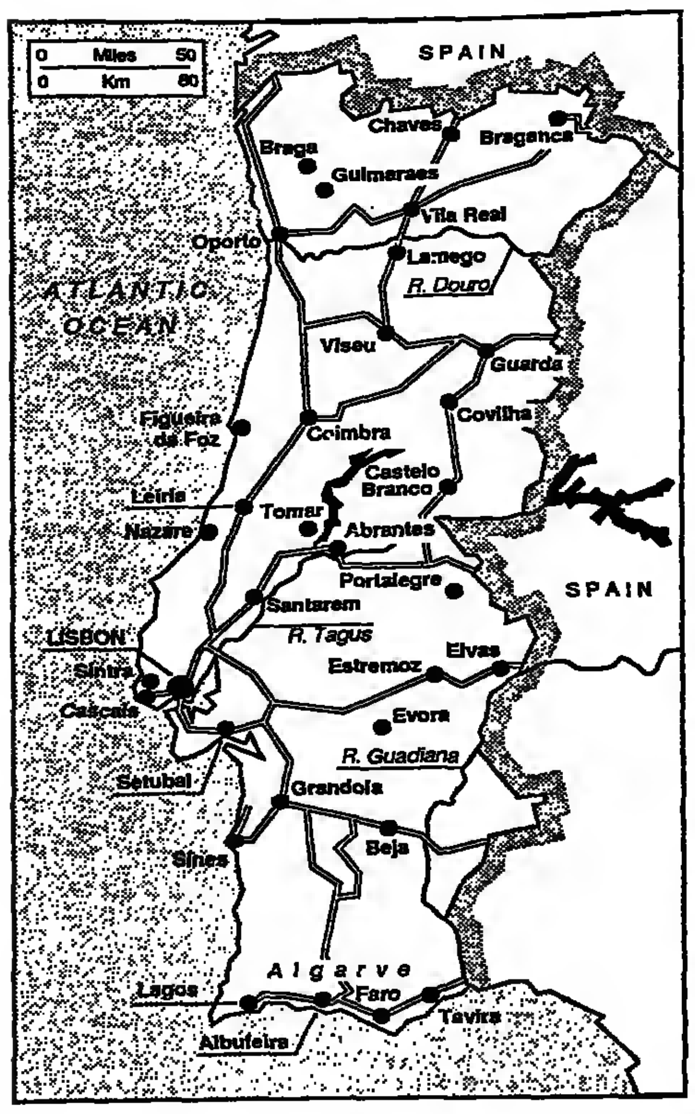
The expression "democratic planning of the economy" was left in, but loosened up: the Master Plan that was supposed to "guide, co-ordinate and discipline economic and social life" is now a vaguely-defined development plan.

The avid response of Portuguese as well as foreign investors to the first, cautious semi-privatisation of 49 per cent of the capital of selected state-run enterprises (so far, a brewery, a bank and an insurance company) this year shows that while politicians havered and bartered for years over how far they could go in pruning back state dominion and by inference encouraging private advances, the business community was straining at the leash waiting for the first chance to put its money where the state's tangles of red tape had been.

The Communist Party which, though it never held a parliamentary majority, made the running in 1974-76 in the streets, on factory floors and in the fields, loudly condemned this year's constitutional change.

But with perestroika starting to cut a swathe through Soviet central planning and bureaucracy, Portugal's Communists were hardly in a position to bring agitation to the streets as they did highly effectively 14 years ago, to impose the conquests of the working class on a country that has now firmly opted for Western European economic as well as political democracy.

Diana Smith



Some 68 companies are set to return to the private sector

Privatisation quickens pulse of the economy

A BATTLE pitting Jose Roquette, a financier steeped in the traditions of Portugal's old banking families, against Belmiro de Azsvedo, an industrialist who built a billion-dollar conglomerate from an almost bankrupt chipboard firm, is proving one of the country's most successful advertisements for privatisation.

Their duel for control of the partially privatised Banco Totta e Acores (BTA) is helping to stimulate e new eppetite for business ventures in Portugal, where state domination of the economy has long deprived the country of the thrill of e major financial struggle.

Following the sale of 49 per cent of state-owned BTA in July, the financier and the industrialist, each in association with a major European bank, are fighting for an upper hand before the *remaining capital is privatised* and the contest for control is finally decided.

The fight so far, involving *tense shareholders' meetings* and last-minute negotiations behind the scenes, hes produced something epproaching *a draw, with each side* gaining one representative each on the five-man board that is still dominated by the state.

"Whatever the outcome, this struggle shows that Portugal now has private entrepreneurs eble to compete for a controlling stake in a major bank," says Mr de Azevedo, head of Sonae, the country'e largest industrial and services group whose sales are forecast to reach $1bn in 1990. "It is also an indication of the attraction of some of the companies the privatisation programme is putting on the market."

The clash over BTA illustrates how privatisation is quickening the pulse of the Portuguese economy, refreshing the financial world with its first tasts of takeovsr excitement since 90 per cent of the sector *fell* under a grey blanket of state ownership in 1975.

The sale was only the second major operation in the Government's ambitious denationalisation programme. But the sncess of ths *flotation*, which was 4.5 times oversubscribed, indicates ths potential privatisation has for overcoming some of the worst *problems besetting* the Portuguese economy.

Eighty per cent of the capital raised from privatisations will be used to diminish the public debt. The deficit, representing 75 per cent of GDP, is one of the most serious structural *flaws* in the economy, absorbing savings that would otherwise be eveilable for prodnctive investment and *requiring a level of liquidity* that fuels inflation.

Beyond these immediate gains, privatisation will help *the economy thrive by turning* ovsr bnreencretically administered, overmanned and insfficient public sector *companies to more dynamic* private management. Reducing the weight of the state in the economy, where in many areas *it combines the rols of* customer, snpplier, shareholder, banker and regulatory

> **The Government would like to avoid opposition charges of "selling off the family silver" to foreigners**

authority, will also stimulate competition and improve the *working of industrial* and financial markets.

In addition, the sale of unprecedentedly large amounts of capital will provide stability for Portugal's developing stock market as it enters a new phase of growth. It will create a new class of small shareholders, including many workers whose acquisition of a stake in their company should involve them more closely in its performance.

So far, only the tip of the state iceberg has been privatised. The sale this year of 49 per cent of four public sector companies will represent an estimated 1.5 per cent of the total value of state-owned capital. The four companies employ roughly 1.6 per cent of the public sector workforce.

Privatisation has been hampered by the 1976 constitution that described as "irreversible" the nationalisations that brought an estimated 53 per cent of Portugal's fixed capital assets under state control after the 1974 revolution. To create momentum for the denationalisation programme, the Government went as far as it could under the constitutional limitations by privatising 49 per cent of public sector enterprises.

A stake in the Unicer brewing company was the first to go on the market in April, followed by BTA in July. Both were highly successful operations. Strong demand was also forecast for 49 per cent of the Aliança and Tranquilidade insurance companies due to be floated this autumn.

Meanwhile, the long-awaited constitutional revision was completed in June, clearing the way for returning most of the 68 wholly state-owned companies to the private sector in full, as well as the remaining capital in the four partially privatised enterprises.

The Government has scheduled Banco Portugues do Atlantico, Portugal's largest commercial bank, as the first company to be 100 per cent privatised, with the flotation next spring certain to top the BTA sale as the largest operation on the stock market. The bank, with a cash flow of Es28bn ($182m) in 1988, plans to increase its capital from Es15.5bn to Es20bn later this year by incorporating reserves.

Next on the privatisation list are Centralcer, the second-largest brewer, Sociedade Nacional de Armadores, a fishing fleet operator, and 49 per cent of Cimpor, a cement company considered too important to the economy for the state to relinquish its majority.

Six of the seven public sector *industrial companies directly* under the control of the Industry Ministry are due to be privatised by 1991. *Management contracts* have already been awarded to consortia involving foreign companies to run the National Petro*chemical Company* and the Setenave shipbuilding and repair yard.

Before any company can be *fully privatised*, new legislation has to be approved in parliament reflecting the constitutional changes. Mr *Anibal Cavaco Silva*, the Prime Minister, says the law, expected to reach the statute books by the end of the year, *will* be considerably more flexible than existing regulations. But precise details have not yet been divulged.

The essential element of the new legislation, according to observers, is that it will allow for the conditions of each specific privatisation operation to be determined on a case-by-case basis. This will replace tight restrictions currently applying to all privatisations. These limit total foreign purchases to 10 per cent of the capital on offer, prevent any single Portuguese entity from obtaining more than 10 per cent in the primary sale and set aside 20 per cent for small investors.

The degree of foreign participation to be allowed is not yet clear. On one hand, the Government, like many of its European counterparts, would like to keep control of strategic industries and utilities in Portuguese hands, also avoiding opposition charges of "selling off the family silver" to foreigners.

On the other hand, the capacity of the Portuguese to absorb the huge amounts of capital coming onto the market is limited. Not many people can stand in line for a controlling stake in a bank like Mr Roquette and Mr de Azevedo, and the resources of Portuguese institutions also not boundless. Eventually, EC regulations will also limit restrictions on foreign participation.

Case-by-case legislation should enable the Government to apportion capital to foreigners according to its strategy for individual companies. Mr Luis Mira Amaral, the Industry Minister, has cited the case of Portucel, a leading paper pulp manufacturer, where the state plans to maintain a majority, as a company where encouraging foreign investment would not be advantageous.

Paper pulp is an area where Portugal is largely self-sufficient in natural resources, has its own technology and is developing a competitive, vertically-integrated industry, ranging from the supply of raw materials to paper production.

In contrast, at Petrogal, the state-owned oil company and Portugal's largest commercial enterprise, Portugal is actively seeking foreign partners. It hopes to guarantee supplies of crude oil, open export markets and supply the technological know-how and capital for major investments in improving its refinery facilities.

Peter Wise

Patrick Blum says banks are critical, despite good results

New spirit of competition in markets

HAVING SEEN their hopes for an end to official credit con*trols dashed* by the imposition in March of restrictive measures to halt an inflationary spending spree, Portugal's *banks managed* to turn in some of their best results ever in the first half of this year.

Most banks, and many finan*cial institutions* only recently established, expect high profits and strong growth in their balance sheets by the year's end.

This is explained to a large extent by the banks' diversification into new services. Ironically, the diversification was forced on them as a result of the Government's credit squeeze which sharply cut lending.

A *new* spirit of competition dawned in the financial markets, driving the banks forward. Last, but not least, the banks benefited from the Government's privatisation programme which began in earnest in the spring.

Good results, however, have not put to rest criticisms over the slow pace of the Government's financial reforms.

Mr Miguel Cadilhe, the Portuguese Finence Minister, remains unrepentant. He says that, faced with a rush of imports and accelerating inflation, the Government had no choice but to tighten consumer credit. He dismisses with a wave of the hand private sector grumbling about persistent government controls over the financial markets.

"Today, the financial system is far more liberal and open than it was in 1985. It is, to a large extent, deregulated. Rules will soon be like those in the most advanced countries of the European Community," he declares. Credit ceilings, he adds, will be abolished "very soon."

Sceptical bankers say they have heard it all before. Last March's package of tough consumer credit controls, tightened credit ceilings for the banks, an increase in compulsory reserves on deposits to 17 per cent and tougher central bank controls on foreign borrowing, came as a shock to the banks.

The credit ceilings are calculated on a basis that favours banks with a large volume of long-term deposits. They are especially worrying for the private and foreign banks which cannot match the volume of deposits evailable to the big

Continued on Page 5

Continued from Page 4

nationalised institutions. They have felt most hemmed in by the ceilings. Their response is to expand.

Several foreign banks are now planning to open more retail branches in the near future. "We have to do it, because we simply don't have the volume of deposits that we need to do all our business," said one foreign banker.

Private banks are also expanding fast. The young and dynamic Banco Comercial Portugues (BCP), established in 1984 by a group of leading industrialists, is about to increase the number of its retail branches from 26 to 50.

Other relative newcomers, Banco Portugues de Investimento (BPI), an investment bank based in Lisbon and Oporto, and Finantia, an investment company, are pushing ahead forcefully with new ideas and services as well as taking an active part in the Government's privatisation programme.

The newcomers have brought a whirl of efficiency

These new institutions, many of which were created after the 1985 liberalisation, have brought a whirl of efficiency and competition, as well as ideas to the market. They have grown rapidly, primarily by offering new services and instruments that have transformed Portugal's financial scene. They are the most fervent enthusiasts of deregulation.

No-one knows how long the current credit controls will remain in force, but most bankers believe that it is only a question of time before they go. "Credit controls distort competition, and they have become less effective because people have learned how to get around them. So they may well be coming to an end anyway," one banker said.

Mr Alexandre Vaz Pinto, chairman of the Banco Espirito Santo e Comercial de Lisboa, one of Portugal's leading banks that was nationalised in 1975 and which is due for reprivatisation, believes that it would be difficult for the Government to drop all credit controls overnight. He says that a mixed system of direct and indirect controls over a period of time is the most probable solution.

During the transition, the authorities could lengthen the period during which a specific amount of credit is set. At the moment the central bank announces new credit ceilings about every two months. The total amount of allowed credit is then divided among the banks according to criteria that many of the banks claim not to understand.

Setting credit ceilings over a longer period would give the banks more flexibility. Penalties for overshooting the central bank's targets could also be eased.

But perhaps the biggest challenge yet will be the integration of Portugal's financial system within the European Community in 1992. This will expose Portuguese banks to the full wind of European competition.

It is likely to shake the more fragile and over-centralised Portuguese state-owned banks that have been used to a cosy relationship with the Government. The state banks are more vulnerable than the new private sector commercial and investment banks or the branches of leading foreign banks.

State banks have tended to be undercapitalised, overstaffed and saddled with bad loans. They now have to set aside large amounts of provisions for new pension funds.

The European Commission has shown some flexibility towards Portugal, but full freedom of capital flows and financial services will have to be introduced within a relatively short time.

Mr Jose Alberto Tavares Moreira, the Governor of the Bank of Portugal, says that it will be difficult for Portugal to have fully liberalised capital flows by 1992. "It will have to be negotiated with the Commission. I think that they will allow us an additional year, but after that it will be more difficult.

"I expect that in 1993 or 1994 we'll have to accept the full liberalisation of capital movements." Adjustments will be required not only for the banks but also for the Government. The transition could be a problem.

On the bright side, the Government's liberalisation to date has brought the financial sector to the forefront of change, though this could be eclipsed by forthcoming privatisations.

The privatisation programme has already given a new impetus to Portugal's once-sleepy Bolsa. Share values have soared as foreign and domestic investors have moved in, lured by the prospects of more state sell-offs.

As state sell-offs lure investors, share values have soared

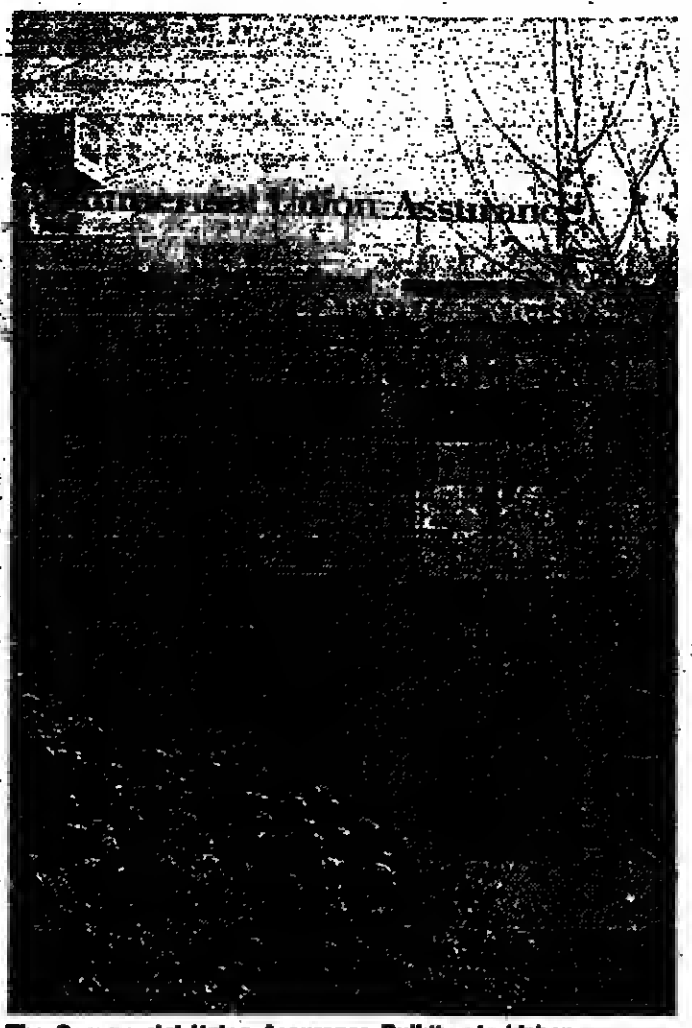
The first part-privatisation last April of Unicer, a brewer, was three times oversubscribed, though strong international demand was restrained by a 10 per cent restriction on foreign purchases of reprivatised companies. In July, the sale of shares in Banco Totta e Acores, the fourth-largest state-owned bank, was 4.5 times oversubscribed. Two insurance companies are due to be privatised this autumn.

Next year, Banco Portugues de Atlantico, Portugal's leading commercial bank, will be 100 per cent privatised in what promises to be the largest disposal of state assets yet. Several other companies are earmarked for privatisation in 1990, and others are set to follow in 1991.

To help speed up the process, the Government will present a new privatisation law to parliament this autumn. Limitations on foreign acquisitions of privatised shares will remain, but the current 10 per cent limit may be raised or made more flexible – to be set on a case-by-case basis – which is more likely.

The Lisbon and Oporto stock exchanges will also be modernised and linked together into a unified market in a reorganisation to be completed by July 1990. The exchanges will introduce new technology, real time information and a new private telephone network to facilitate dealing. The reform is designed to speed up trading, make dealing more transparent, improve the flow of information and give the Portuguese market a higher international profile.

There has not been such change in such a short time in Portugal's financial markets since the 1975 revolution which nationalised almost overnight over 50 per cent of the country's capital assets. Maybe that is why Mr Cadilhe feels able to dismiss his critics quite as easily as he does.



The Commercial Union Assurance Building in Lisbon

The country must modernise its infrastructure, says **Patrick Blum**

The race to catch up

PORTUGAL'S race to catch up with the rest of the European Community is most noticeable along its roads.

Until only quite recently, it was not uncommon for motorists to find, to their utter surprise, that the road they had been happily travelling on suddenly disappeared as they rounded a bend. This was especially true in the poorer mountainous interior of the country. Today, thanks in large part to generous Community funds that have helped to finance a considerable programme of road construction, such an experience is becoming something of a rarity.

Leaving aside the frighteningly erratic local driving habits which give Portugal one of the highest per capita accident rates in Europe, the danger now comes from the Government's own single-minded drive to modernise the country's infrastructure.

Parts of the country appear to have been turned into vast building sites. And it is not roads alone that are benefiting from current efforts to modernise. Investment is being channelled into railways, airports, bridges and dams, to improve drainage, the cities' sewers and farm irrigation in the countryside.

New roads or resurfaced older ones that criss-cross the country from north to south and west to east make driving safer, but a good deal more confusing. The absence of adequate signposting can send unwary travellers on an endless goose-chase across more building sites, through a maze of by-passes, and back the way they came. But it is a small price to pay for the very real improvement in road conditions, though much has still to be done.

Transport and communications are priority areas for investments. Mr Joao Maria Leitao de Oliveira Martins, the Transport Minister, says the Government is spending about Es120bn (£465m) a year at 1989 prices on transport infrastructure alone. Some 60 per cent of that goes on the roads, 20-25 per cent on the railways and about 15 per cent on the modernisation of airports and, to a lesser extent, ports.

He says the rate of investment will be maintained for the next few years to finance development plans for the roads (until 1995), for railways (until 1994), and for airports (until 1992).

Much of this investment comes in the form of grants from the European Community and loans from the European Investment Bank. Portugal received more than Ecu 600m in grants and Ecu 560.9m in EIB loans in 1988. This year, the EIB expects to lend a total of Ecu 700m.

About 70 per cent of EIB lending has been for infrastructure. For the period 1990-1994, the EIB estimates that it will lend Portugal Ecu 2.5-2.8bn. The major part will be for infrastructure and the rest to modernise industry, agriculture and services.

Parts of the country seem to have been turned into vast building sites. Investment is being channelled into railways, airports, bridges and dams, as well as roads

The Portuguese authorities view the modernisation of the country's infrastructure as a prerequisite for future prosperity.

Mr Luis Francisco de Valente Oliveira, the Planning Minister, explains: "We've had 20 years or more, with hardly any investment at all in roads and infrastructure. New roads open up new opportunities for the small towns in the interior and for the whole of the country."

Better communications help to speed up growth and investment in the interior. It is hoped that in turn, this will encourage people to stay in the regions rather than drift towards Lisbon or Oporto. "If we don't stimulate growth in the interior there will be too great a concentration of people in large urban areas which would worsen problems in both rural and urban areas," Mr Valente Oliveira says.

Government plans foresee that between 1985 and 1995, about 2,700 km of new main inter-city roads and over 1800 km of secondary roads will have been built. In 1989-90, the authorities intend to spend close to Es57.5bn (about £225m) on the main access roads to Lisbon and Oporto alone.

Not surprisingly, all this activity has been a bonanza for construction companies which are returning record profits this year.

Plans for the railways are equally ambitious. There are to be new international high-speed links with Spain between Lisbon and Madrid and Oporto and Irun on the Spanish border with France, and a new central station in Lisbon. In the meantime, signalling is being modernised and computerised. Services are being improved with a priority for commuter lines around Lisbon and Oporto.

Mr Oliveira Martins says that investment will be concentrated on about one third of the network regarded as important to the country's economy.

A symbol of things to come is the smooth Alfa express which links Lisbon to Oporto in about three hours. It boasts air-conditioning and has comfortable reclining seats. Three-course meals, snacks and soft drinks are available.

The Alfa runs seven times a day, and the state railways company hopes that this will encourage business travellers to take the train rather than the 40-minute flight between the two cities. Its two main advantages are that the Alfa brings its passengers to the cities' centres, and does not suffer from the long delays caused by fog which often descends on Oporto.

The traditional rivalry with Spain has given way to discussions over how to improve road and railway links between the two countries. Last month, the Spanish and Portuguese authorities presented joint proposals to the European Commission on cross-border communications.

Air transport is being improved under the first phase of a development plan due to be completed in 1991. This foresees expanding small regional airports and upgrading the two main airports at Lisbon and Oporto. Some Es9bn will be spent on expanding and modernising facilities at Lisbon's airport and to raise its capacity to 8m passengers a year. A possible second phase of development could bring capacity to 12m-13m passengers.

The Oporto airport is being expanded at a cost of Es7bn to raise passenger capacity to 1.5m. Modernisation of Faro airport – a major arrival point for tourists holidaying in the Algarve – is being completed at a cost of about Es4.5m. Small regional airports at Vila Real in the North, at Viseu and Covilha are also set for expansion and modernisation.

More radical change could be on its way. The Government is studying the possibility of privatising some railway and air services. "We want to deregulate, bring market principles and more private capital in these sectors," Mr Oliveira Martins says.

For the railways, this has already meant the closure of some smaller lines in the interior. Others may follow. Old narrow gauge railways in the northern province of Tras os Montes are likely to be closed or sold off. Candidate lines are those that are either uneconomic or less important to the national network. They include lines in areas of exceptional beauty that could become a focus for specialised tourism. But the bulk of the railways will remain state-owned.

A new law on public transport should be approved by parliament this autumn that will establish the basis for future privatisation of the railways, of TAP, the national airline, and of the national bus company.

After decades of neglect, Portugal's infrastructure is going through dramatic changes. As 1992 draws near, the pace of modernisation is accelerating. Barring accidents on the way, Portugal will by then have established the basis of a modern transport infrastructure. But that is unlikely to be the end of the road.

What is behind the current wave of labour discontent? **Patrick Blum** explains

Trade union groups draw closer

RELATIONS BETWEEN Portugal's two major trade union federations have never been warm, but pressure from a Government determined to liberalise the economy is drawing them closer.

The independent Uniao *Geral de Trabalhadores (UGT)*, created 10 years ago as an alternative to the pro-communist Confederacao Geral dos Trabalhadores Portugueses (CGTP), managed, against expectations, to survive and break the CGTP's near-monopoly.

Today, the UGT claims to have close to 1m members from 58 affiliated unions. The CGTP is still the largest of the two with a claimed membership of 1.4m from 156 affiliated unions.

The two federations acknowledge each other's existeoce, but until recently there had been no dialogue between them.

Government shows no inclination to debate with or consult labour on key issues

All this is changing. Faced with a Government that has shown no inclination to debate with or consult labour on key issues, the unions have made tentative steps towards co-operation. At least, they are talking to one another. Until now, their only contact et leadership level was within the framework of official tripartite discussions with the Government and employers in the Conselbo de Concertacao Social – e consultative body which defines annual wage-price and labour questions, but whicb the Government has in effect boycotted since the start of the year.

Last month, the two federations beld their first direct talks since the UGT's creation. They remain cautious about any future relationship. "It isn't a rapprochement. It's just that it is necessary to talk to the CGTP," says Mr Rui Costa, a member of the UGT's executive secretariat. Nevertheless, if it is not quite a spring, it could well be the beginning of a thaw in relations between the two labour bodies, and it could mean trouble in store for the Social Democratic administration of Mr Anibal Cavaco Silva.

Despite their disunity, the unions have flexed their muscles before. A general strike in March 1988, to protest at Government attempts to restrain wages and introdnce new labour laws, brought out about balf tbe country's 3m workforce. The strike hit public transport and key industries *seriously. Earlier this year*, the unions organised a spate of stoppages, although the threat of another general strike did not materialise.

Since the start of the year, there have been sporadic strikes by transport workers, bank employees, teachers and other public sector workers. Doctors, lawyers and magistrates bave also protested *against unilateral government* alterations in their career and fee structures.

There is now talk of the possibility of another general strike if the Government fails to meet some of the unions' *demands* on *wages and other* issues.

There are several reasons for the current wave of discontent. Inflation is eroding wages and the Government's attempt to squeeze credit by, among other things, making hire-purchase on cars and other consumer goods more expensive, has hit popular aspirations. Portuguese workers are the lowest paid in the European Community with a legal minimum salary raised last July to Es31,500 (£123) e month. Many earn little more than that.

Pensions are another cause of concern. Of tbe country's approximately 2m pensioners, about 80 per cent receive less than the minimnm wage, according to the UGT which is pressing the Government to bring pensions into line with wages.

The unions are also worried about the erosion of job security. Under the Salazar dictatorship workers could easily be sacked. The 1975 revolution brought ebout e 180-degree swing and it became practically impossible for employers to lay off workers. Since 1981 successive governments have sought to redraw the rules and make labour relations more flexible, but they have met strong resistance. The current administration's attempts at reform, criticised as high-handed, were a *major* factor behind last year's general strike.

While the unions accept the need to modernise labour relations and to bring them to European standards, the latest version of the Pacote Laboral (labour pact) passed earlier this year continues to be controversial and unpopular. Mr Manuel Lopes, a member of the CGTP's executive commission, says the Pacote aims to sweep away the social gains made by the labour movement during the revolntion.

"It is a Portuguese version of Mrs Thatcber's policies," he says.

The CGTP regards the new rules covering lay-offs as the most serious problem, though Mr Lopes admits that the Pacote's latest version is not as radical as the Government'e original one.

The labour pact "is a Portuguese version of Mrs Thatcher's policies"

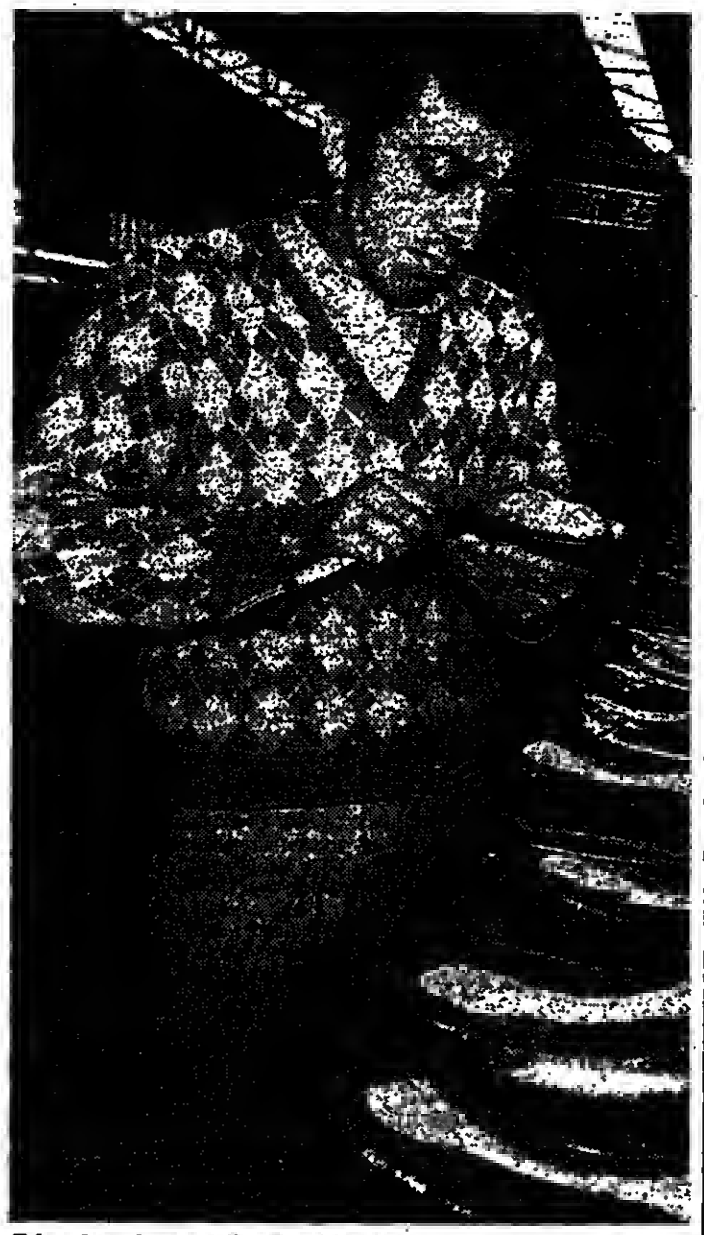
In the immediate future, the unions' attention will be focused on the current round of wage negotiations. During last year's negotiations, the Government insisted that inflation would not rise above 6 per cent, despite growing evidence to the contrary. By the end of 1988 inflation was 11.5 per cent. By mid-1989 wages had risen by an average of 10.6 per cent, but with inflation already at 13.7 per cent in August on an annualised basis, the unions say they need at least an extra *three percentage points to* make up for the difference.

The UGT says it cannot accept anything under 13 per cent, and the CGTP is aiming for over 15 per cent. Either way, both unions can be expected *to raise the social* temperature several degrees during the negotiations. Both are waiting to see how the Government will respond to their demands, stressing their desire for a dialogue. Failing that, they say they will take whatever joint action is necessary.

Safety at work is another cause for concern. Accidents at work are common, and Portugal has the highest proportion of workplace casnalties in Europe. Last year, 619 workers died as a result of accidents at work.

With Europe's lowest wages, working conditions often below European standards, and an enduring problem with child labour, the unions view with *varying degrees of equanimity* Portugal's integration into the European Community. The UGT says it has favoured Portugal'e accession to the EC from the start.

The CGTP is more guarded, but both place high hopes in moves to establish a European social charter that would guarantee trade union rights and impose tougher rules on safety. "Of course there are problems, but we don't think that there are any alternatives to Europe for Portugal," Mr Costa says.



Trimming shoes at the Basilius factory

EUROPEAN COMMUNITY FUNDS

Getting money is easy: the problem is how to spend it

A CYNIC would say that Portugal's real expertise lies in the art of obtaining money from the European Community. The World Bank estimates that the net inflow of EC cash in 1987 was about $350m and that future annual transfers to Portugal of EC funds will be between $900m-$1.2bn and equal between 3-4 per cent of the Portuguese GDP last year.

Lisbon's administrators have been extremely skilful at tapping Brussels' bounty. Mr *Tony Menezes*, the EC's representative in Lisbon, says that Portugal was both quick in elaborating funding programmes and judicious in their presentation.

"The priority that Portugal has given to *education* reform and professional training is a correct one," he declares.

Mr Abelino Santana, who is responsible for Pedip, the Special Programme for Portuguese Industrial Development, says that one of the key features of the inflow of funds is that they are all channelled into one integrated programme that is run by a closely-knit department within the Industry Ministry.

Savouring the contrast, Mr Santana cites the case of EC aid to Greece: "That's been a disaster because the money went to different ministries."

Portugal's handling of Community funds does not, however, lack critics of its own. Ms Paula de Brito, a consultant specialising in EC-related business at Ernst and Whinney's Lisbon office, complains of a bureaucracy that virtually strangles the delivery of funds by the Portuguese administration to the recipients of EC grants.

Administrative incompetence has been especially notorious, according to Ms Brito, in the handling of agricultural funds. "I know of applications for grants that received no reply because they were simply not forwarded by the bureaucrats," she says.

The Pedip is nevertheless the "least bad programme" in Ms Brito's view, although she is critical of the manner in which companies are deemed eligible for cash grants. Alleging that there is discrimination in the allocation of funds, she believes it is "not very logical" to favour companies that are already big and successful.

Controversy is inevitable in such a selection process. "There would probably be less controversy if there were less money to hand out," says Mr Menezes, who ensures the efficient arrival of the funds but has no control over their disposal.

The fear is that cash grants may be directed towards companies that are not particularly needy and will be used artificially to boost corporate profitability.

"There would be less controversy if there were less money to hand out"

Mr Menezes concedes that the EC does not have the structure to follow up periodically the implementation of the funds it grants and to investigate allegations of mismanagement. "This is a problem everywhere in the EC," he says, "but it is probably worse in Portugal because there are many more projects."

The first assessment of the massive inflow of Community funds to Portugal is not due until next year's midterm review of structural funds but it will, at that stage, be almost *certainly too early to establish* a clear picture of the situation.

The Commission gave final approval to the Pedip package only at the end of 1988 and its implementation began in the first quarter of this year. According to Mr Santana, Pedip is now achieving "cruising speed" but the data he has so far concerns intentions rather than realities – some 500 projects have been proposed and the likelihood is that there will be 1,000 a year.

Mr Santana, who right now is deciding who gets how much and why, has clear ideas about the sort of Portuguese companies that will be suitable candidates for the Pedip programme. What he wants, as might be expected, are companies that are assured of export-led growth prospects.

The programme director's ambition is nothing less than to "bring about a deep modification of Portugal's productive structure" and, that being the goal, he believes that the available *funding* is "not all that much money."

If the cash allocation proceeds according to the blueprint, viable sectors of the economy will be growing at 6 per cent a year, up from 3 per cent, while those that have no long-term future, such as sub-sectors of the textile industry, will be slowed down from a present volatile 8 per cent growth to 3 per cent.

A sliding scale for the cash *grants steps* up the hand-outs to companies with innovative products that have an R & D input and to those that are seeking to increase productivity or improve quality.

Funds are also available in large quantities for programmes that seek to sharpen managerial skills, retrain employees and import qualified personnel from abroad who are willing to transfer their know-how.

But there must be concern about whether the arrival of *such funds is, in the final analysis*, merely going to paper over Portugal's structural deficiencies rather than, as Mr Santana hopes "deeply modify" its industrial profile.

The political temptation to use the *Community's* cash to postpone adjustment, rather than to accelerate it, is all too real.

Tom Burns

TEXTILES AND CLOTHING

Challenge from Asia

STORM CLOUDS are gathering around Portugal's textile and clothing industry, the country's largest single manufacturing sector and, accounting for nearly 30 per cent of the total value of its external trade, its biggest single foreign currency earner.

A sombre analysis by the Industry Ministry's research department points to the uncertainties that the sector faces in the 1990s. The main danger is that the EC, which receives 90 per cent of Portugal's clothing and textile exports, will come under pressure from Newly Industrialised Countries to widen its quota for the industry.

Portugal's reliance on the EC may be measured in terms of the funds that it receives from the Commission. These are vital to the modernisation of its industry and of its infrastructure. But that is only half the story.

This dependence may also be gauged by the manner in which an all-important sector, such as textiles and clothing is highly exposed to the whims of Portugal's Euro partners: what may be a low agenda item for the EC during Uruguay Round negotiations and Multi Fibre agreements can have a potentially shattering impact on a vital domestic industry.

The Industry Ministry's analysts warn that the developed world in general and the EC partners in particular might well be tempted to use textiles as a bargaining chip in Gatt and that they will agree to more liberal textile quota levels in return for continued restrictions on more sophisticated industrial products from the NICs.

The crux of the problem is that Portugal's clothing and textiles sector resembles all too closely that of, for example, south-east Asia. The most glaring comparison concerns the extensive use in Portugal of child labour, a social scourge that was denounced as a "national scandal" last month by President Mario Soares. When two years ago British, Swedish and West German television companies attempted to film the "Oliver Twists" of the Common Market, mill owners herded their 10-year-old employees off the premises and let security guards loose on the camera crews.

In part, the Third World veneer to the industry is an heirloom from the days when Portugal produced exclusively for the bottom end of its domestic market and, to an even greater degree, for its colonial empire. With such captive and undemanding markets, companies simply concentrated on increasing capacity and had little time for product control and quality design.

Where the NIC textile sectors score over Portugal's is that they have far more recent technology and can adapt with flexibility and, if necessary, with greater volume to new opportunities. They will also be able to maintain lower labour costs, and more child labourers, than will Portugal.

The NICs have more recent technology and will be able to keep more child labourers

Although in the past two years Portugal's textiles sector has managed to increase, albeit modestly, exports to Europe, the strain is beginning to tell in an increasingly competitive atmosphere. The Industry Ministry's analysts noted that buyers want faster deliveries, greater variety and quicker replacements. The domestic sector, unused to such exigencies, was finding it difficult to adjust.

But Mr Miguel Cardhile, the Finance Minister, refuses to see difficulties ahead. "I've listened to academics saying that textiles have so many problems that they have no future but I am not pessimistic."

The sector is, in the opinion of most, handicapped by its antiquity but Mr Cardhile makes a virtue of its traditional status and argues that because of this "the businessmen know very well what they are doing." He admits that a "a large number of small textile companies will have problems," but he is confident that they "will be able to adapt flexibly and easily."

Others in the Cabinet do not appear to share such views. Mr Luis Fernando Mira Amaral, Industry Minister, believes that the textile sector needs modernisation right across the board and that it needs it fast. "New equipment is not enough. We have to have new management, new products, new thinking about quality and design and a new commercial structure," he says. "Our real problem is that we have to have all these things at the same time and quickly."

Mr Mira Amaral argues that the sector cannot survive with "Third World costs and products" and that Portugal has no option but to go upmarket. His ideal is the textile industry of Italy or West Germany and he estimates that only 20 per cent of the current domestic output is up to European standards of design and quality. Whatever does not meet such norms should, in the Industry Minister's opinion, be folded up.

Independent industry analysts reckon that the only textile subsector that will be viable in the long term as an export money earner is children's clothing.

The consequences of such a shake-out in the textile and clothing industry, should it be implemented as the Industry Ministry would wish, will be dramatic in the extreme. And there is no doubt that the Government, by the simple mechanism of allocating direct EC grants to the clothing companies it considers viable, could implement such a programme.

Mr Mira Amaral, who foresees "many bankruptcies" in the textile sector, says some 50,000 jobs out of a total present labour force of 170,000 could disappear. The figure would depend, he says, on the extent to which the EC will increase its textile quota to third countries.

The real, draconian and definitive, restructuring that is now likely to come about will be on a scale far greater than previously experienced. Between 1981 and 1986 the total labour force shrank from 209,000 to 185,000 and it took a further three years to shed 15,000 more jobs. The prospect is that more than three times as many jobs will now be lost in an even shorter space of time.

Some fear that the storm clouds gathering around the sector have taken on the appearance of a hurricane.

Tom Burns

HERDADE do Espira 1986, a mellow, full-bodied red wine from the Palmela area south of Lisbon is doing well on selective wine lists.

"What," puzzled readers may ask, "is red wine doing in an article on pulp and paper?"

Simple. Herdade do Espirra (*translation*: Estate of the Sneeze) 1986 is produced by Portucel, Portugal's giant pulp-paper complex. No! It is not brewed from eucalyptus bark, pine needles or recycled cardboard, but from *bona fide* grapes, and is considered a connoisseur's wine.

What has wine to do with Portucel? Equally simple. The most economical, fast-growing source of pulp is the eucalyptus tree – a species loved by koala bears bnt reviled by some ecologists as a selfish water-devourer harmful to neighbouring species.

To produce the 800,000 tonnes of pulp a year that Portucel churns out, not to mention the 240,000 tonnes from Swedish-owned Celbi, 121,000 tonnes from British-owned Caima and 300,000 tonnes produced by rapidly-expanding Portuguese-British owned Soporcel, eucalyptus must be bred in abundance.

Portugal's climate and, in many areas, soil conditions are indifferent for agriculture but suitable for forestry, making it in principle, ideal for intensive eucalyptus-growing.

In practice, advances in eucalyptus production have had to be won against loud, occasionally violent protests at the encroachment of the tree on "farmland" (where little of any use has ever been produced and where illiterate, poor scratch farmers can increase their income from chronically-skimpy to reasonable by learning how to grow and tend eucalyptus, then selling it to pulp mills).

To blunt prickly public debate, the pulp mills have *intensified their efforts to show* eucalyptus is not compatible with other crops, when it is properly-planted and managed, and the companies have invested heavily in scientific forestry and in attempts to show outside producers how to grow eucalyptus rationally and not abusively.

Among the extra-curricular activities is Portucel's agri-business like wine grapes in Palmela or hazelnuts in the Castelo Branco highlands. Mr Antonio Celeste, chairman of Portucel – one of the few state-owned enterprises that makes a big profit, whose pulp exports make it one of Portugal's largest single foreign currency earners – claims that in a few years the *company's* new hazelnnt farms, co-managed by local farmers and adjacent to one of its encalyptus groves, will become one of Europe's largest hazelnut exporters.

Portucel is out to prove it is ecologically-committed to diversify and can make a profit from grapes and nuts as well as pulp.

The four big Portuguese pulp companies tend their eucalyptus groves carefully. *Caima* has imported Brazilian technicians to make the groves even more productive and environmentally-acceptable. Celbi is equally strict about quality.

Pulp, which represents over US$2bn exports a year for Portugal, is e big Portuguese industrial success story – a case of being able to draw on the right, largely domestically-grown raw material and *to offer the right, competitively* and cost-consciously-produced goods – short fibre pulp – for which world demand so far shows no sign of slacking.

Portugal's modern pulp industry is about 60 years old. Caima, set up by old Oporto British families and now controlled by Ibstock Johnsen of the UK, was the first to manufacture pulp, in those days long-fibre pulp from slower- growing pine trees.

Today, Portugal's pulp is high-tech, fiercely competitive and, with 1992's single market drawing near, preparing to expand, diversify and continue to research new production techniques.

For Portucel and Soporcel, today's two largest pulp companies, *large-scale paper* production is the next stage – logical, to them, in a concept of an industry integrated from the tree and its bark to the coated paper envelope in which you send your office letters.

Loud protests at encroachment of the tree on "farmland"

By 1992, pulp companies as a whole expect to have invested Es270bn (£1.05bn) in increased capacity or new lines.

Soporcel, in which BAT's Wiggins-Teape holds a minority stake, is investing US$450m in the next three years, including a giant fine business-paper-making machine for its Figueira da Foz pulp mill – now Europe's largest pulp mill.

The Soporcel 100,000 tonnes a year giant paper machine will vie with the 90,000 tonnes a year paper machine installed by the dynamic young Inapa paper company near Setubal in which Portucel holds 10 per cent: the two new paper ventures will upgrade Portugal from one of Western Europe's most modest paper producers to a member of the big league, geared to a demanding export market.

Caima, whose pulp output hit a record 120,780 tonnes in 1988, took a different tack and after a flnrry of highly-profitable years, *diversified capital investment* away from pulp-related products. It has bought into shipping and forwarding and taken 80 per cent of Valadares ceramics which plans to be one of Europe's biggest sanitary ceramics producers. Toilets, it may not be generally known, need labour-intensive investment: the S-bend at the beck cannot be finished by machine and needs *hand-tooling*.

Portugal's low wage levels make it a logical place for such output. The far-sighted Caima, which first sought to acquire the Pinto Basto family porcelain firm of Vista Alegre but was fought off, saw that pulp and paper were not the only commodities for which demand was unlikely to fall off.

Founded 22 years ago, Celbi is now owned by Sweden's Stora, who bonght up the original owners, Bilerud, in 1984. Its production has grown steadily in the last five years and it now plans to invest US$540m to boost pulp capacity with two new units to a total 350,000 tonnes a year. This will make the mill one of Europe's largest: 90 per cent of Celbi's output is sold to EC countries.

Portucel, a result of 1975 *nationalisations* and mergers of several pulp and paper companies, accounts for 51 per cent of Portugal's pulp production. It already makes paper (cardboard for packaging) as well as pulp, and exports 60 per cent of its paper output. It is now taking e long, hard look at the European *tissue market* where Kleenex and Scott tissues vie for leadership, and is holding preliminary talks with the US's James River with a long-term view to getting into the tissue-making sector. It also has its eye on the Iberian peninsula's packaging market.

Unlike most state-run concerns, it has bitten the bullet and reduced its labour force from 7,200 to 4,500, and is now *financing* expansion *of* pulp production in its larger plants like Setubal (an extra 120,000 tonnes of annual capacity) from its own casb flow rather than state hand-outs.

In fact, Portucel officials say wrily, they help finance the state, to which Portucel paid US$95m in taxes last year.

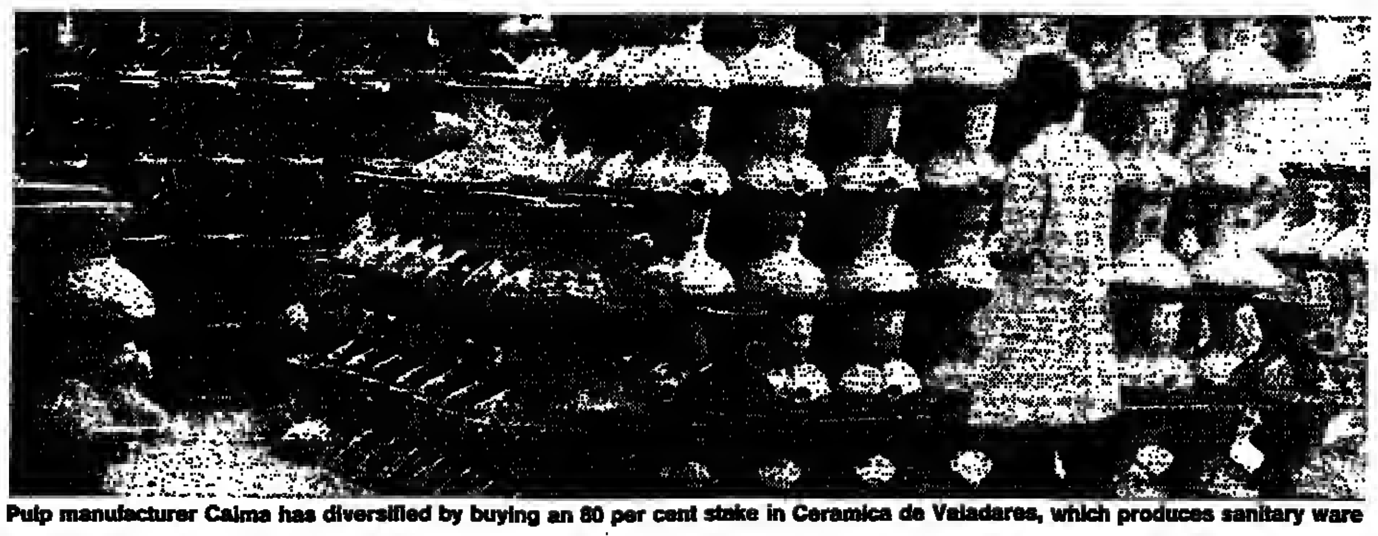
Like other more forward-thinking state sector *managers*, Mr Celeste *is* not everse to semi-privatisation, at least, of Portucel, meaning a chance for not just new capital bnt new technology.

In all, things would look unabashedly-rosy on the pulp-paper horizon were it not for the manufacturers' major complaint – the soaring price of wood. This leapt from a couple of thousand escudos to Es5,500 a cord last year and is still rising.

The cost of buying wood has led the pulp mills to try to speed up planting of their own eucalyptus groves. Which brings us back to the militant ecologist. And to wine and hazelnuts.

Diana Smith looks at paper and pulp prospects

A eucalyptus success story



Pulp manufacturer Caima has diversified by buying an 80 per cent stake in Ceramica de Valadares, which produces sanitary ware

Peter Wise looks at a vital sector that is being opened up to free enterprise

Energetic approach to an 'Achilles' heel

PORTUGUESE INDUSTRY is hungry for power. Rapid economic expansion is forcing the pace of a revolution in the energy sector, where lumbering state monopolies, miserly invastment and over-dependence *on imported oil* have starved the country of modern, cost-efficient power supplies.

Satisfying Portogal's voracious appetite for energy will cost more than Es1,000bn (£3.9bn) over the next four years. That is the forecast investment in a comprehensive shake-np of the sector that involves restructuring the electricity and oil industries, building a natural gas network and moving away from oil to coal and other less costly alternatives.

Opening the sector to free enterprise will provide the impetus to carry these sweeping changes forward. Restrictions on private competition have recently been lifted from every area of the energy market, from power plants to petrol pumps, after 15 years of stifling state domination.

Companies ranging from small domestic firms to multinational giants are now eagerly competing for a stake in the sector. They are not only providing capital the state could not *possibly raise alone* but are also stirring oew entrepreneurial life in indnstries grown sluggish under monolithic state control.

"Free enterprise is at the heart of our policy for providing the country with a competitive energy industry," says *Mr Nuno Ribeiro da Silva*, the Energy Secretary. "Private initiative is vital to minimise the structural weaknesses that have made the sector the 'Achilles' heel' of Portugal's economic development."

The country's "original sin," as he describes it, is having no

Portugal's "original sin" is having few resources of its own

significant energy resources of its own. Hydro-electric plants, wood fuels, a little poor quality coal and solar power provide only 17 per cent of total needs. The rest, including 10m tonnes of oil a year, is imported. Last year the bill came to Es200bn (*£775m*), representing 8.3 per cent of total imports.

A politically expedient approach to energy by a series of short-lived governments after the 1974 revolntion, which coincided with the first world oil shock, has aggravated the fundamental problem. *Investment was held* to a minimum and employment in state-owned companies to a maximum in an effort to keep prices artificially low and avoid redundancies.

This may have won votes. But it left the country with neglected, inefficient energy *facilities that are proving inad*equate to fuel the rapid growth of the economy or to help build competitive manufacturing industries.

Today, soaring energy consumption is straining infrastructures and increasing the urgency of diversification to reduce reliance on costly oil derivatives. Last year, high-grade petrol consumption increased 13.6 per cent by comparison with 1987. Diesel consumption was up 8.6 per cent, propane gas 18 per cent and electricity 6.5 per cent. GDP growth of 4 per cent paled by comparison.

But political stability, EC entry and a coherent, *long-term* energy policy forged by the Social Democrat Government have set the stage for dramatic changes. A 1977 law that placed oil refining and the production, transport and distribution of electricity and gas totally in state hands was revoked last year.

Evolution is now about to catch up with the two state-owned dinosaurs that dominate the energy sector.

Plans for Electricidade de Portugal (EdP), the electricity producer and distribntor, involve breaking the ntility into antonomous companies handling production, primary transport and regional distribution networks. Transport and distribution are likely to remain a state monopoly. But the door is open for private power production on a large scale and for independent project engineerin

Talks are under way with Australian and US companies interested in building and operating thermal power plants using imported coal. European companies are discussing gas-fired power stations and others have put forward projects for major hydroelectric dams.

Anthorities are already dealing with a flood of 650 proposals to build small power plants, received since legislation permitting private prodoction of up to MW 10 was passed last year. Most of the projects are for mini-hydroelectric installations at the MW 5 level. Each nevertheless involves an investment of Es2-2.5bn.

EdP cannot be restructured until the company frees itself from the constraints of a

A flood of proposals to build small power plants

massive Es1,095bn debt. Strategic objectives for 1992 are to reduce the debt by half, to cut back the workforce of 23,000 by 6,000, to invest Es200bn in modernisation and raise substantial funds by selling non-essential real estate.

Getting tough with debtors, who owe EdP Es270bn, is a top item on the agenda. Municipalities are the main culprits, with outstanding payments of Es135bn. Settlement of debts prior to 1989 are under negotia*tion. But councils which fail to* pay monthly bills this year are finding their installations unceremoniously plunged into darkness.

EC entry has determined the future of Petrogal, the state-owned oil company and Portugal's largest commercial *enterprise*. Its monopoly is being dismantled in stages in preparation for complete liberalisation of the Portuguese oil market in 1992. The intense competition this is stimulating among the 12 distributors now operating in Portugal is reflected in their rocketing spending on advertising which is 17 times higher than two years ago.

To hold its own against some of the world leaders in the market, Petrogal is seeking "marriages of convenience" with foreign partners able to guarantee crude oil supplies, inject capital for modernisation and open export markets.

The company plans investments, focused on improving refineries, of Es110bn over the next four years. Finland's Neste Oy, already operating on several fronts in Portugal, is tipped as a possible partner.

Association with foreign companies requires semi-privatisation. To this end, Petrogal's status was changed this year from a state corporation to a public limited company. But officials do not expect the state to relinquish overall control of an enterprise that plays such a strategic role in the national economy.

Apart from Lisbon, the country buys natural gas in bottles

One of Portugal's most ambitious energy projects is a plan to pipe natural gas to major cities by 1995. Work is due to begin next year on the construction of a *liquid* gas terminal at the port of Setubal, south of Lisbon.

From Setuhal, a 244-mile (390-kilometre) pipeline will be built along the coast to the northern town of Braga. Branches off the main pipeline will serve eight urban areas.

Subsequently, Portugal will link up to the Enropean natural gas pipeline through Spain. Lisbon is currently the *only city with* piped gas. The rest of the country buys it in bottles.

Competition between major European gas companies for the contract to build and operate the terminal and pipeline will intensify this autumn with the publication of legislation setting *out conditions for* tenders. Mainly domestic companies will also be competing separately for at least eight regional distribution contracts. The overall project involves a total investment of more than Es120bn.

INTERVIEW: **Nuno Ribeiro da Silva**

Benefits of a single energy market

MR NUNO Ribeiro da Silva, Portugal's Energy Secretary, is intent on rescuing his sector from a thankless role as a tool *at the service of every* government department except the Energy Department.

During the decade of political instability *that* followed the 1974 revolution, energy policy *was* manipulated to raise taxes, *hold down inflation, prop up* struggling industries *and* guarantee jobs. But energy itself was rarely a consideration.

"Energy policy became a patchwork of unrelated measures serving different ends. Today, our aim is to develop a coherent energy programme in its own right," says Mr Ribeiro da Silva. "Priorities are being altered so that policy decisions in other areas are in tune with our plans to develop a modern, efficient sector."

The Social Democrat Government took the first step in this direction by appointing Mr Ribeiro da Silva to the new post of Secretary of State for *Energy and Mining when it* came to office two years ago.

Dividing responsibilities for the energy and manufacturing sectors, previously under one department, reflected government ambitions to give energy questions a new prominence in an effort to overcome weaknesses that have long checked economic growth.

Mr Ribeiro da Silva brought to the job a wealth of experience and expertise in energy economics gained as an academic and a corporate consultant and administrator. Then 32, he was also one of the youngest members of a youthful government determined to bring a new outlook to bear on old problems.

Portugal's energy sector *is not short of old problems.* The country depends on imports, mostly oil, for more than 80 per cent of its energy needs, placing the trade deficit under constant pressure. Expensive, inefficient power supplies penalise industry. State monopolies have *stifled competition.*

The change of outlook wrought by Mr Ribeiro da Silva was to hring these problems into perspective and shape pragmatic solutions. "We don't intend to fall asleep under the shade of an *ambitious 20-year plan that* will be *out* date next year," he says. "Energy policy has to go beyond vague generalities and become a tool *for everyday use*, capable of achieving practical results."

The Energy Department's achievements over the past *two years testify to the success* of the new approach. The oil, gas and electricity industries have been opened to private competition that is stimulating dynamic growth.

Price distortions have been corrected. A huge project to pipe natural gas into Portugal is under way. Draconian laws that frightened away oil prospectors have been rewritten and searches begun *for the country's own oil* reserves.

Energy policy is benefiting from political stability that gives credibility to long-term planning and removes the temptation for expedient measures for which short-lived governments would not have to pay the price. Even more significant is the spur that EC entry has given to modernisation.

Community membership provides finance for badly-needed infrastructures, energy rationalisation measures and diversification programmes. EC regulations are stimulating liberalisation of the oil market where the state monopoly has to be dismantled by 1992. And moves towards a single European energy market promise access to low-tariff *imported energy.*

Energy deficiencies and geographical isolation make transport costs a sensitive issue for Portugal. Lisbon authorities are currently fighting attempts by Spain to impose what they consider "astronomical" transit tariffs on electricity that Portugal plans to import from France under a major 10-year contract.

EC energy ministers have shown support for Portugal's position and the issue should be resolved when the Portuguese Mr Antonio Cardoso e Cunha, the Energy Commissioner, puts proposals for common transit legislation before the EC Council of Ministers this *autumn.*

Against the potential advantages of the internal energy market, Portugal has to weigh *the damage* that planned EC-wide competition for public procurement contracts will inflict on the country's metallurgical and electrical industries. Purchases by Electricidade de Portugal, the state-owned power company, for example, represent 70-75 per cent of the country's two leading metallurgical companies, Sorefame and Mague/Sepsa.

The Lisbon Government is concerned that liberalisation of public contracts may be advancing faster than the wider internal energy market, where Portugal's advantages lie. "We are prepared to support freer public procurement as long as there is equal progress made towards freer access to energy supplies," says Mr Ribeiro da Silva.

He is, nevertheless, a ferocious defender of a single energy market, convinced that the potential benefits outweigh the inescapable disadvantages.

"We feel a free European energy market, developed in a balanced way and taking the interests of southern Europe into consideration, will help diminish Portugal's disadvantages, as well as *furthering the greater aim* of benefiting Europe as a whole."

Peter Wise

Nuno Ribeiro da Silva, the Energy Secretary

Progress on the region's modernisation remains uneven, writes **Patrick Blum**

Work ethic of the North faces challenge

THE CHALLENGE of European integration is felt more keenly in the region that is commonly described as the North. Business there has been quick; some say quicker than in other parts of the country, to grasp the opportunities and the funds made available to modernise Portugal's economy and infrastructure.

The vast area which has the city of Oporto — Portugal's second largest — as its major financial and business centre, is marked by contrasts between the relative affluence of the coastal strip and the poorer less developed interior.

Nevertheless, signs of the race to modernise in preparation for the European internal market in 1992 are visible throughout the region. From the province of Tras os Montes in the northernmost part, with its barren and wind-swept hills that offer no shelter, through the rapidly expanding provincial centres, down to Coimbra in the south, the same frenetic activity is evident. New roads link the interior's towns and villages, new factories and houses are rising from the ground.

All this activity is transforming a region with important implications for the country's future. The North with a population of 4.9m — about half Portugal's total population and more than half its workforce — accounts for roughly half the national domestic product, half of manufacturing investment and over 60 per cent of exports.

Fish for sale in the harbour area of Oporto

For historical reasons, the North's development has been and remains uneven. Mr Vitor Carvalho of the Associacao Industrial Portuense (AIP), Oporto's business association, says that until the 1975 revolution, much of Portuguese industry was geared towards the colonies in Africa.

Trade with Spain was minimal or non-existent. Manufacturing activity remained close to the major ports. Portugal looked outwards to the sea, not to its interior which remained undeveloped.

The interior and above all its northernmost provinces were an impoverished backwater from where people, mostly the younger men, sought to escape. They were drawn towards the larger towns along the coast, or they went to France, Belgium, Britain, Germany; anywhere that is, where there were jobs that offered the possibility or promise of a better life. Others went to the colonies.

Now this is changing. The colonies are gone, and, since Portugal joined the EC, the barriers with Spain are falling fast. Trade and communications with the rest of Europe are expanding rapidly, and this gives a new chance to the interior.

The task is enormous, and the North will need to live up to its own professed work ethic to meet the challenge. There is pride and a deep-rooted feeling, especially around Oporto, that in the North people work hard while in the South — meaning Lisbon — people spend too much time on politics.

People in Oporto like to quote a popular saying which, roughly translated, says: "Oporto works, Coimbra sings and Lisbon enjoys itself."

Oporto and its surroundings have grown rapidly. Private enterprise there has been able to survive the 1975 revolutionary onslaught and prosper. Many of the North's companies are small and medium-size enterprises, which has allowed them a flexibility denied the larger state-owned companies.

However, their relatively small size is also a handicap when faced with the prospect of tough competition once EC markets are opened up. At a time of tightened credit controls, imposed by the Government to control an inflationary spending spree, they also have found it more difficult to raise capital.

Everyone admits that the transition to more modern production will be difficult and in some cases painful.

The source of the North's success is also a potential source of weakness. The bulk of manufacturing activity is concentrated in traditional industries — textiles, footwear, wood and furniture, pulp and cork — which must now restructure to meet the new challenge.

The problem is especially acute in the textile industry — about 80 per cent of which is in the North — where anything between a quarter and a third of the 170,000 workforce might have to go. The industry employs a large proportion of women for whom it will be more difficult to find new jobs.

The current boom in construction will most probably absorb a large number of male workers, but for women with little education and training, conversion to new jobs will be more problematic.

Mr Carvalho says that some special training and education programmes might be needed for women. There could be jobs in the new services industries that are springing up in the region.

The restructuring and modernisation of industry will mean other changes, too. Industry will have to shift from relying on its competitive advantage based on low labour costs — Asian and Third World producers are equally competitive at that level — and move to higher quality, better design and improved marketing. It will require a change in attitudes, habits and mentality, as well as new machinery and production techniques.

Such changes will be difficult for the small and medium-size companies that are typical of much of the *North's industries.*

"The average entrepreneur (in the North) has a plant with 200-300 employees. Often his house is just next door to the factory, he knows all the names of his employees, and in some cases he is not only the owner, but the marketing manager, the administration manager and the production manager as well," says the manager of a local bank.

If much of local industry is small, the North is also the home of some of the country's largest and most powerful private groups.

One such group is Sonae. Its activities range from manufacturing (wood and associated products), distribution (supermarkets, fast food outlets), property, agribusiness, information technology, trading and banking. It is run by Mr Belmiro de Azevedo, a self-made businessman and one of Portugal'a new breed of tough entrepreneurs.

Sonae has been expanding fast. It is preparing a vast project to build what could be Lisbon's and Portugal's largest yet shopping, hotel and office development. Mr de Azevedo is planning to launch a national newspaper and has already made preparations to move into television once the Government decides — as it is expected to do — to end the state television monopoly. The group is listed on Portugal's Bolsa and hopes to achieve a listing on the London Stock Exchange next year.

While Mr de Azevedo is optimistic about the region's future, he would like to see the Government speed up its liberalisation of the economy. "Wa (in the North) don't care too much about politics. We kept on working and investing when there was no political stability. We can manage regardless of government."

Mr de Azevedo's frankness is not always appreciated by the authorities in Lisbon, but it is not untypical of the North. "The real centre of private activity is in Oporto," says an economist with one of the new private banks.

The future is more uncertain. "The question is what will the industrial structure of the North be like in five years' time?" asks the director of the Oporto branch of an international bank.

Large groups, already highly diversified, are in a better shape to meet the challenges ahead. The economy of the North is changing and the interior's role is likely to become more important.

New industries and tourism could provide new jobs and increase the region's prosperity. Tourism, especially, is underdeveloped in a region that can boast stunning scenery from the rugged hilltops of Tras os Montes to the gentle and green rolling hills along the Douro valley where some of the country's most delicious wines are produced.

THE MEDIA

The laws of the market

MONDAY night Radio Televisao Portuguesa is showing the BBC's Henry VI. So you switch on for Shakespeare — and get Canadian ballet.

Sunday's treat, Gary Cooper and Ingrid Bergman in "For Whom the Bell Tolls," is listed to start at 3.15 pm. It begins at 2.20.

Try Alfred Hitchcock, Thursday, 11 pm. No. Instead, a football match.

So much for press TV listings (supplied by RTP's PR department). RTP is full of surprises.

But viewers, for whom many RTP nights are not-always-magical mystery tours, take heart. The Government will break tha RTP two-channel, state-run and state-funded monopoly and license a private channel. Consortia led by press barons, including former Prime Minister Francisco Pinto Balsemao, publisher of the weekly Expresso, are avid bidders.

For nine years governments vowed to break the TV monopoly: Mr Balsemao, as Premier in the early 1980s, wanted to grant a channel to the Roman Catholic church which for 13 years had the only non-state radio station, Radio Renascenca.

With the radio quasi-monopoly broken in 1988 and dozens of new private local stations licensed, RDP — the state radio network — and Renascenca must now try harder.

TV liberalisation is slower. The restrictive Marxist state-oriented 1976 Constitution was an excuse to keep the most popular (6.5m peak time viewers in a population of 10m) medium tied to Papa State and overmanned by bureaucrats who outnumber production staff by about 2.5 to one.

Now, the Constitution has been liberalised. So has Portugal in a world where frontiers are fading.

The kind of state television that made catatonically-bored viewers endure two-hour "debates" on dim political points that interested about 33 initiates, where the participants all gabbled at once, is dying of logorrhoea.

Thousands of better-off citizens, who are the nation's pacemakers and big consumers, have each invested US$2,500 in satellite TV receivers and have a choice of 16 European or US channels. People in rural or frontier areas direct their antennae to rapidly-diversifying Spanish TV. A new domestic channel (half-welcomed, half-feared by officials used to call the TV shots), may be RTP's nemesis unless its structures are re-thought.

The break-up of TV monopoly is just one side of the change in the media that, like much of Portugal's economy, were swept into the nationalised cupboard in the 1975 revolution.

Most pre-1975 morning and evening papers were owned by banks or oligopolies confiscated by the state in 1975; they were seized to be used for revolutionary propaganda.

A year of red-hot collectivist dogma lost them readers who, while they were ill-fed by a press diet of censored blancmange under the old rightwing regime, at least did not get heartburn with their newsprint.

The public kept its Es2.50 (10 US cents) — then the cost of a paper that now costs Es50 — in its pocket. State-owned media dived into the red in more senses than one.

Enter a private sector to join the pioneering Expresso (est. 1973). From 1975 on it lured hundreds of thousands of readers to weeklies but has been less-financially successful with new dailies, of which Portugal has a glut.

Too many papers for the size of its population

Leaning to the centre, right or left of it, private sector papers — Jornal Novo, A Tarde, O Dia, O Jornal, Tempo, Semanario, O Diabo or O Independentes scrambled for reader loyalty with fresh news and analysis, sports and arts and more recently, economic and capital markets coverage.

The boredom of most publishers or editors with economic matters, in contrast with their obsession with political speculation or between-the-lines message-sending to rivals, left media gaps.

Since the start of Portugal's mid-1980's economic surge, strenuous efforts have been made to bridge the gap — first by more comprehensive Business Market sections in the daily or weekly press, then by a crop of glossy business magazines such as Negociois, Classe and Exame (Portuguese cousin of Brazil's successful business magazine) and finally by business fortnightlies or weeklies like Porto's Vida Economica and Lisbon's Semanario Economico and Jornal do Comercio.

And so, business readership is rising from a few hundred into tens of thousands, thanks to the fact-packed style of better newspaper economy sections. These have graduated from prolix, turgidly-written analyses of debt theory to straight reporting.

That is progress for Portugal's once-monochrome press where most daily news came from the wire service monopoly, Lusa, with different headlines in each paper but identical content.

There have been bold recent experiments in general-purpose dailies or weeklies strong on glossy layout and fresh news or gossip but short of enough readers or advertisers to put them into the black. In a year two new dailies, Europa and Seculo, have started and shut down, and a handsome new Oporto-based weekly O Liberal, has lost its first editor and is trying its luck with another.

Beneath the media tide lies a rock-hard fact: Portugal has too many papers for the size, degree of literacy and buying power of its population.

Lisbon has 10, Oporto four morning or evening dailies. There are 10 major national weeklies; a minority, including Expresso, exceed the 100,000-circulation mark, but others hobble by with circulations of 10,000-20,000.

Subsidised newsprint prices and bank or government bail-outs helped some distressed public or private sector daily papers survive for years. But the laws of the market are setting in. There is less chance to nurse a dying paper, and the state has begun selling off its media like A Capital and Diario Popular, the Lisbon evening papers.

Other sales, like that of Oporto's big-selling Jornal de Noticias, the only Portuguese daily to sell around 75,000 copies, will follow, but so far no-one has mentioned bringing in private consultants to show RTP how to draw up accurate TV schedules.

Diana Smith

The law is getting tough on pollution, reports **Peter Wise**

Industrialists worried as green consciousness grows

OFFICIALS FROM the Department of the Environment set up their equipment at the Estoril Autodrome three days before the main race. By the time Alain Prost, Ayrton Senna, Nigel Mansell and 23 other Formula One drivers roared down the opening straight of the Portuguese Grand Prix last week, their every decibel was being registered on noise pollution meters.

The engines far exceeded limits established under recent anti-noise legislation, reaching levels capable of inflicting physical pain. The motor aces escaped penalties because they race in Portugal only once a year.

But the owners of unsilenced motorcycles and ill-tuned cars, who make traffic noise more of a problem than exhaust fumes in Portuguese cities, are not being let off so lightly as the authorities crack down on polluters of every kind.

The fight against noise is only one aspect of increasingly tough anti-pollution measures coming into force as the environment emerges as a major issue in Portugal for the first time. Incidents that have hit the headlines recently reflect growing public concern for the environment as the pace of industrialisation quickens.

In one of Portugal's worst ecological disasters, up to 6,000 tons of crude oil were spilled off the Atlantic coast when a tanker collided into the sunken foundations of a sea wall at the Sines oil and petrochemical complex this summer. The oil washed up in a black sludge on local beaches, threatening rare sea otters and maritime eagles, and denting public confidence in industrial facilities.

In June, after a young man was killed by a police bullet during a village protest over dust from a china clay plant, the Government halted extraction and ordered an inquiry into the man's death. The environment also became a major issue in elections for the European Parliament, with three wards boycotting the vote in protests over pollution.

Earlier, mounted paramilitary police charged northern farm workers as they tried to tear up eucalyptus seedlings in a demonstration supported by environmentalists. They claim the tree consumes excessive amounts of scarce water, ruins the soil for other crops and breaks up local communities centred on traditional farming.

Paper pulp companies, among the country's leading export earners, favour the slender, aromatic eucalyptus because it is fast-growing, thrives on the poor, sandy soil that abounds in Portugal and produces high-quality long-grain papers.

Since then, officials have moved fast to produce sophisticated legislation to implement the basic law. The authorities are emphatic that they want to do away with the image of Portugal as a country with lax pollution control.

"We are very conscious that many companies move from the north to the south of Europe seeking to reduce costs, not just through lower wage bills but also because they perceive environmental regulations to be lighter or non-existent," the official says.

Legislation covering noise, toxic waste and solid waste products has already been implemented. Three other

The authorities are emphatic that they want to *do away with the image of Portugal as a* country with lax pollution control

The companies say they have extensive scientific evidence to counter the Greens' charges. Unexperienced in public relations, they are facing difficulties in reversing a tide of public opinion that has turned against them.

Legislators share Portugal's growing green consciousness. From an almost total absence of regulations two years ago, the Government is about to implement some of the most advanced anti-pollution laws in Europe.

Pollution is currently limited to a few industrial areas. Mr Jose Macario Correia, the Environment Secretary, wants to prevent it from rising to the levels suffered by more developed countries by implementing state-of-the-art legislation before industrialisation advances further.

Environmental legislation was virtually non-existent until a "Basic Law of the Environment" was passed in 1987, setting out broad objectives. "Foreign investors would ask about environmental protection regulations and be amazed to find that we just didn't have any," says a Department of the Environment official.

major laws have been drawn up and scheduled for approval in the next few months. For the first time in Portugal, they will define clear rules on:

- Water pollution: The law will stipulate what water sources may be used for the disposal of industrial effluents; what fees will be payable for the emissions of what levels of effluent; and the maximum permitted levels.
- Air pollution: The law will provide a regulatory framework for EC rules on levels of air pollution that have already been written into Portuguese law.
- Project evaluation: The law will implement an EC directive on assessment of the environmental impact of major projects. In addition, an environmental component is being added to regulations governing the establishment of industrial enterprises.

The laws will apply immediately to all new projects, but existing industries will be given transition periods to comply. Maximum fines will increase from Es3m to Es500m.

The country's four paper pulp companies have signed a contract with the Government agreeing to meet the demands of the new laws on water and air pollution within three years, in some cases meaning a reduction of waste by 75 per cent.

Companies accept the need for change and favour new legislation, which will replace what they see as the arbitrary decisions of different authorities with clearly defined rules. But they fear industrial growth could be checked unnecessarily and foreign investment deterred if environmental concerns are pushed too far, too fast.

"Portugal is copying the most advanced legislation in Europe but forgetting that the industries of more developed countries have had many years to evolve pollution control," says Mr Joao de Sa Nogueira, president of the Environmental Commission of the Portuguese Industrial Association (Caipa).

"Instead of copying fourth-generation legislation from other EC countries, we should take what is best from their first- and second-generation legislation, taking care not to repeat their errors."

He believes that the Government is being too ambitious by introducing tougher rules than the EC. Portugal has added other substances to Community directives on water pollution that mention only cadmium and mercury, for example, and certain types of project that do not require an environmental impact assessment under EC rules will do so in Portugal.

Company representatives are also concerned that the available incentives do not match the scale of the changes required by the new laws. They would also like more time to comply. "It will be very difficult to accomplish in three years what has taken other countries 15 or 20," says a pulp company director.

EC rules are being tightened in Portugal where experience in other countries has shown the need for change, according to an environment official. "We are not asking for heaven and earth," he adds, "but we do want to keep the heaven and earth we already have."

THE ALGARVE

Tourists shun 'building site'

"PEOPLE don't want to live in a permanent building site," said Mr Mario Soares recently.

The President was echoing complaints by Portuguese and foreign holidaymakers about building in the Algarve.

Vacationing there for ordinary citizens as well as for presidents has become noisy. Building fever has swept the area. Half-finished hotels and flats sprout everywhere.

Like building sites everywhere, Algarve visitors consider they booked for a jolly holiday with plenty of sun, food, liquid refreshment and healing sleep — not a 24-hour-a-day siege by drills, hammers, cement mixers and incessantly-rattling and rumbling lorries taking material to and from the sites.

They are disgruntled. So are their travel agents. So are hoteliers near building sites who have had 1989 cancellations after tourists' complaints. So are tourism officials who try to persuade people that the Algarve is a lovely place for holidays that range from cheap to expensive, depending on how much luxury you want in your hotel, flat or villa.

Not too long ago, you could not have found a more relaxing place than the Algarve, with its white sand, warm trade winds, balmy sea temperatures, golden-ochre cliffs, fine golf courses, fish restaurants and friendly people.

Then success reared its giddy head. Licensed or clandestine helter-skelter building proliferated with little more thought than to extract pounds, Deutschmarks, guilders or kroner from the maximum number of visitors. Builders and operators blithely expected tourists to pour in and heedlessly put up with deteriorating water supply and sanitation, the masking of blue ocean views in once-charming villages or small ports like Albufeira and Portimao by ugly high-rise jungles, or with ocean-to-frontier traffic jams.

The Portuguese press began to warn of Algarve overbuilding. The Lisbon Government, worried about potential damage to tourist earnings that total over US$2.5bn a year and help offset chronic trade deficits, called for a co-ordinated Algarve plan, including strict supervision of building density and height, a balance between tourism and the farming for which the Algarve hinterland is naturally-endowed with reasonable soil and more sunshine hours than elsewhere in Portugal, and better infrastructures including sanitation, water supply and roads.

There was a problem: short of revenue and lured by prospects of high property tax income from tourist building, many Algarve municipalities opted to let the building roar ahead.

In the summer of 1989 once-idyllic spots echo not to the laughter of children at play on the sands but to the ceaseless thunder of building works, and President Soares is moved to add his two cents' worth to a swelling chorus of protest.

How, people ask, can builders be allowed to disrupt the holidays of one of the country's major sources of foreign currency and one of the major means by which its image is propagated abroad? "Building can't stop just because of tourists," said a site manager recently — possibly missing an interesting point: the buildings are due to house tourists. If tourists are driven away by noise, and tell friends and relatives at home they could not sleep a wink, or succumbed to dust allergy in the Algarve — there will soon be no tourists to occupy the excess building.

Since 1984, Algarve high-rise flat or villa-builders have had trouble selling space. Time-sharing loomed as a profitable alternative to full sale but the abusively-high pressure sales tactics of time-share cast dark shadows over that activity.

"There is too much built-up Algarve space," say officials, ecologists and economists: "the excess will backfire."

It has. This year the English, the 1.5m-strong mainstay of Algarve package tourism, are moving on to fresh (dare one say quieter?) fields — Turkey, the Aegean and the US.

Some 9 per cent fewer British came to the south of Portugal this year. More paranoid Algarvians blame the English fade-out on anti-Portugal campaigns in the British press, led by British tour operators who want customers to go elsewhere.

Senior Lisbon government officials, like the Minister of Trade and Tourism, refute such claims and hint the Algarve as it now is in many once-beautiful leeward spots (windward to the west of Lagos is still relatively unspoilt), is a campaign against itself, and that local authorities, builders and holiday accommodation operators have let greed cloud their judgment.

Officials warn that if these people do not soon come to their senses, halt wildcat building, and start worrying about whom this building is disturbing at what cost to the country and their own long-term bank balances, the Algarve will decline from a difficult area to an ecological and economic disaster. It will be desertified through destruction of green space, and abandoned by the high-earning, free-spending visitors whom Portugal longs to attract.

The English — the 1.5m-strong mainstay of the region's tourism — are moving on

The English and their travel agents are sniffy about today's Algarve not only because of the building mess but because prices are rising and the days of dirt-cheap flight/stay/car hire packages are numbered.

Rising prices are a conscious decision by some hoteliers who want upmarket clientele, to try to exclude by the price weapon a sometimes-rowdy downmarket that scares off quieter holidaymakers. This is somewhat vindictive towards a packaged English goose that laid the Algarve's first clutch of golden eggs — but "quality tourism" is Portugal's new buzzword.

It is not an easy shift: once a resort gains a package tour image, it has trouble attracting selective travellers. But once it gains a reputation for noisemakers, it has difficulty luring even package tours.

Noting that secluded, low-density, upmarket-from-the-outset areas like Carvoeiro, Vale de Lobos, Quinta do Lago, Prainha, Penina and new, exclusive golf-cum-luxury villa complexes have struck it reasonably rich, hoteliers are sticking to raised prices, even though it means an unnerving number of empty rooms in July.

Other hotels meanwhile, shaken by a steep drop in bookings, cut summer prices drastically, hoping to lure someone — anyone. Indeed, the number of Algarve Portuguese tourists, who once saw the place as a rich foreigners' fiefdom, rose dramatically this year.

When they discovered the Algarve 25 years ago — in a large package hotel in Montegordo — it was a pine-wooded, sparkling, exclusive area for wealthy Portuguese, a late winter resort where the hinterland was spectacularly carpeted in almond blossom in February. The locals decided more package tourism was the formula for the region's economic future, and discouraged their compatriots who began to feel like strangers in their own southernmost province.

Wincing at higgledy-piggledy development that soon spread, and turning inward to their own well-manicured gardens and golf courses, the exclusive developers helped sustain the Algarve's dwindling reputation for beauty and hospitality while the quality of service plummeted in mass-tourism hotels and restaurants.

Algarvians used to boast that their region would not go the way of Spanish coasts, littered with concrete. "We control our coast," they crowed. Once, they did. Now, they do not.

It shows.

In the hinterland behind the cement ambitious new fruit/vegetable/flower/or plant farming projects, part-financed by EC support funds, assert a different, less ecologically-savage Algarve but if smallholders continue to sell their land avidly to tourist real-estate developers, the alienation of the Algarve will be sadder still.

Diana Smith

FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday October 11 1989

Chief price changes yesterday

FRANKFURT (DM)							
Rises				**Falls**			
Bay Hypo	418	+	6	Gen. Motors	47¾	−	½
DLW	700	+	20.5	IBM	108½	−	¾
Feldmuehle Nob.	523	+	23	USAir	49⅞	−	2
Falls				**PARIS (FFr)**			
Karstadt	660	−	18.5	**Rises**			
Lahmeyer	1130	−	30	CFI	517	+	26.3
Linde	813	−	15	Paribas	580	+	51.2
NEW YORK ($)				Sanofi	1070	+	50.3
Rises				Spie Bat.-CK	355	+	15.7
LIN Broadcast.	113⅜	+	3½	**Falls**			
Norton	60⅛	+	¾	Radiotech	922	−	44.5
Telex	14½	+	6⅛	UFB Locabail	595	−	23.1

New York prices as at 12.30pm. Tokyo markets closed for Bank holiday.

LONDON (Pence)							
Rises				Ferranti Intl.	55	−	4½
Burmah	535	+	18	First Nat. Fin.	212	−	13
Calor Grp.	426	+	10	GKN	384	−	13
Royal Ins.	458	+	8	GUS A	1038	−	30
Shell	446	+	5½	ICI	1156	−	19
Sun Life	1123	+	10	Legal & Gen.	339	−	18
Ultramar	325	+	6	RHM	438	−	2
Unitech	380	+	3	Unilever	647	−	2
Falls							
ASDA Grp.	157	−	10				

Rover in harmony with Honda's Concerto

Kevin Done looks at the most ambitious collaboration yet between the UK car group and its Japanese partner

ROVER Group, the last vestige of UK-owned volume car making, may still be walking on Japanese crutches, but this week it sets out to convince the world that it is making vital progress on the road to a lasting recovery.

Rover and Honda unveil today the product of their most ambitious collaboration project to date, the Rover 200 and its sister car the Honda Concerto.

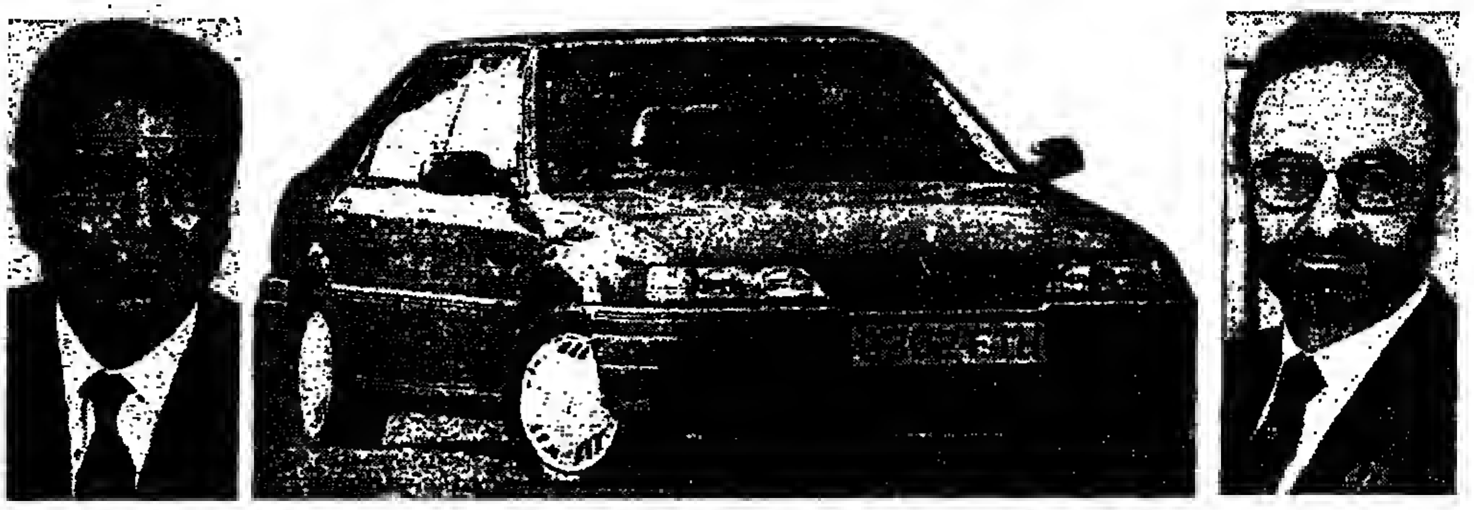
For Rover the car must stop the rot. It must arrest the apparently irreversible decline in its market share in the UK and in continental Europe, and it must convince a sceptical public that all the talk of so-called "Roverisation" — of taking the group into the more lucrative, prestige niches of each segment of the European car market — is finally bearing fruit.

For Honda the car is a vital step in proving that one of Japan's most dynamic car makers with an enviable reputation for engineering excellence, has not slipped up by throwing in its lot with one of the weak men of the European car industry.

For the first time in a decade of increasingly intimate collaboration between the two companies, Honda has taken the risk of making Rover's Longbridge assembly plant in Birmingham, its sole European source for a new car.

By 1990/91 up to 40,000 Honda Concertos a year will be coming off the Longbridge assembly line, providing Japan's number three car maker with a new springboard for its assault on the European car market in the 1990s.

The Concerto will be a vital stepping stone for Honda in providing an additional product with which to develop its somewhat fledgling European dealer network, and to provide the platform for selling production from its own £300m assembly plant at Swindon in southern England, which is due to be producing 100,000 cars a year by 1994.



The new 200/Concerto: lastest fruit of links between Mr Tadashi Kume's Honda and Rover Group, headed by Sir Graham Day (right)

It will play a vital role in the plan of Mr Tadashi Kume, Honda's 57-year-old president and chief executive to increase the company's European sales from 140,000 last year to 260,000-270,000 by the mid-1990s.

With its plans to take a 20 per cent equity stake in Rover's vehicle operations (Rover Cars and Land Rover four-wheel drive leisure/utility vehicles), as well as to build its own car assembly plant and expand its existing engine plant, Honda has taken on a vital role in the rebuilding of the motor industry in Britain.

It clearly looked very carefully at the Rover operation, before deciding to take the final plunge and cement its links by taking an equity stake. The equity link, which is due to be finalised by the end of the year, is perhaps the biggest compliment that Rover has yet received on its long road to recovery.

It suggests that Honda has decided that the UK's biggest car maker has finally begun to break down the cultural barriers and learn vital lessons from Japan in how to develop and engineer new products and how to bring them into volume production with world-class levels of quality and reliability.

Persuading Honda to come on board and move away from its previous fragile project-by-project collaboration was one of the major tasks that faced British Aerospace, the leading UK aircraft and weapons maker, when it stunned financial markets and the motor industry by taking over Rover Group.

The deal has already proved a short-term financial coup of considerable proportions. At the same time the acquisition has almost doubled BAe's turnover, added considerably to its assets at a give-away price, and is providing an increasingly acceptable contribution to group profits.

The success of the new-generation Rover 200 hatchback unveiled today — along with the later Rover 400 saloon and coupe derivatives — will help determine whether BAe has also acquired an asset that can perform financially in the long-term.

The Rover 200/400 series is the group's competitor for the first half of the 1990s in the vital lower-medium segment of the West European car market, where it will have to take on the formidable challenge of rivals such as the Volkswagen Golf, the Ford Escort/Orion, General Motors' Opel Kadett/Vauxhall Astra, the Renault 19 and the Fiat Tipo. This is the largest single segment of the European car market, accounting for close to 30 per cent of all new car sales last year.

Rover would doubtless blanche at some of these comparisons, as it seeks to take its public image up-market in order to gain what shelter it can from the full force of head-on competition with the volume car makers.

"We don't see Rover Group as a volume car manufacturer, we see ourselves having to provide cars that will make money for Rover Group, and can be distinctive and prestigious. We are seeking to get to the top of each segment in which we compete, to be the aspirational car in any given sector," says Mr George Simpson, Rover managing director.

Mr Simpson had been a long-standing British Leyland and BL manager, but was retrieved from DAF, the Dutch truck maker, almost a year ago to become managing director in succession to Sir Graham Day, who has become an increasingly non-executive chairman.

Only the hatchback Rover 200 is unveiled today, but a saloon version, the Rover 400, and a sporty coupe derivative are due to follow next year.

Along with the development of a new engine family (the K-Series, an all-aluminium alloy 1.1 and 1.4 litre multi-valve engine), and the associated R65 five-speed transmission modified from a Peugeot design, Rover alone has invested more than £400m in manufacturing facilities, chiefly at Longbridge.

It has built a new body plant — heavily influenced by Honda with a substantial part of the equipment coming from Japan — a new £38m paint plant, and new assembly track, as well as the £200m K-Series engine and gearbox facilities.

Nearly £50m has been spent at Swindon to modernise Rover's main pressings and tool manufacturing plant.

Rover claims it has built a highly flexible volume manufacturing plant, which should provide a capacity for producing more than 200,000 cars a year of the 200/400/Concerto range.

The 200/400 range will replace the existing Rover 200 saloon range (essentially a Honda Ballade under a Rover badge) produced at Longbridge, and will eventually replace too the Maestro small family car range.

"Up where you belong" is the slogan of the unashamedly yuppie television advertising campaign which marks the Rover 200 launch in the UK tonight. For Rover the new car range will be the first real test of whether it has found out where it belongs in the fiercely competitive European car market of the 1990s.

McCaw alters offer for LIN

By Anatole Kaletsky in New York

MCCAW CELLULAR Communications, the Seattle-based telephone group 20 per cent-owned by British Telecom, yesterday modified its $6bn offer for LIN Broadcasting.

LIN, the owner of the US's most attractive cellular telephone franchises, has already agreed to merge with BellSouth, the Baby Bell local telephone group covering the Southeastern US.

McCaw, whose previous bid of $110 a share was rejected in July, yesterday, with the full support of British Telecom, raised its offer to $125 a share. It was not clear, however, whether the new McCaw proposal would be seen as an improvement on its previous bid because of an unusual new element designed to give LIN shareholders a continuing interest in the fast-growing cellular business.

The BellSouth deal involved a variation on the same theme, because BellSouth agreed to merge its own substantial cellular interests into LIN's in exchange for a 50 per cent stake in the combined group.

McCaw said yesterday it would only buy 22m shares or 45 per cent of LIN for cash. Together with the 5.1m shares McCaw already owns, this would give it just over 50 per cent of LIN.

The rest of the company's shares would remain outstanding, but would enjoy an unusual "private market value guarantee". Under this, McCaw would buy out the minority shareholders at a "private market value" including a "premium for control", which would be determined in conjunction with independent directors and advisers.

If McCaw proved unable or unwilling to buy out the shareholders by 1994, the whole of LIN, including McCaw's controlling stake, would be put up for sale.

Under McCaw's proposals, the restructured LIN would take over the 46 per cent interest in the New York cellular franchise owned by Metromedia. Last week McCaw announced that it had agreed to buy this interest from Metromedia for $1.9bn, and it said yesterday that it would pass this stake on to a restructured LIN at the same price.

But LIN already owns the 54 per cent of the New York franchise not held by Metromedia, and has a right of first refusal on Metromedia's stake.

By merging with BellSouth, LIN would acquire franchises throughout the BellSouth operating area, and become the biggest cellular operator in the US, with many more actual subscribers, though somewhat fewer potential customers or "Pops", than McCaw.

Lex, Page 22

News Corp shares slip on profits warning

By Chris Sherwell in Sydney

A WARNING from Mr Rupert Murdoch that earnings by his News Corporation "will not have their customary increase" in the current year yesterday prompted a slide in the group's shares on the Australian stock market.

His warning came at News Corp's annual meeting in Adelaide, and unnerved investors already concerned about the group's debt levels. Its shares finished 55 cents lower at A$15.90 and helped weaken the market overall.

In August, News Corp reported an equity-accounted after-tax profit of A$496.5m ($390m) for the year to June. Analysts have since differed in their forecasts for 1989-90.

Two key factors affecting the group's performance are the heavy investment in Sky television, the UK satellite broadcasting operation — an investment put yesterday at A$200m, as at the end of August — and the start-up costs for two Sunday newspapers in Melbourne.

Also significant will be the impact of high interest rates on newspaper advertising revenues in both Australia and the UK, and the effect of the protracted Australian domestic pilots' dispute, which will be felt through Ansett Transport Industries, the airline owned jointly with TNT.

Mr Murdoch was quoted yesterday as saying revenues in the current year were ahead of last year so far. "But they are not as healthy as we had expected and I feel there is some deterioration setting in. It may be that this year will be the first year in some years when our earnings will not have their customary increase."

Adding to investor worries was Mr Murdoch's confirmation that he remained interested in MGM/United Artists Communications, the Hollywood movie group for which he offered US$1.3bn last month in an unsuccessful last-minute attempt to derail a purchase by Mr Christopher Skase's Qintex.

Regarding Sky, Mr Richard Searby, chairman, said the service was now reaching 600,000 British homes, 100,000 higher than the most recent estimate by Mr Murdoch.

On the US operations, he said the group's television stations were performing "very well", and that Fox Broadcasting Network's results were still improving.

World stock markets, Back Page; Lex, Page 22

Ferranti chairman comes under attack from shareholders

By Terry Dodsworth, Industrial Editor

ANGRY SHAREHOLDERS yesterday confronted Sir Derek Alun-Jones, chairman of Ferranti International Signal, the stricken electronics group, as a consortium of British Aerospace and the French Thomson-CSF emerged as the frontrunner in the bidding to take over the company.

BAe and Thomson confirmed they were considering making a joint offer for the company, adding that they had asked Ferranti for access to "all relevant information" to be able to evaluate it.

This would include details of the report commissioned by Ferranti from Coopers and Lybrand, the accountants, on the £215m ($347m) fraud of which the company claims to have been victim in its International Signal and Control subsidiary.

Sir Derek Alun-Jones, fighting for survival as Ferranti chairman, told a meagrely-attended shareholders' meeting that the fraud had been going on for seven years. This means Ferranti believes the fraudulent contracts began a year before ISC, then an independent US company, was quoted on the London Stock Exchange and five years before it was taken over by Ferranti.

According to Sir Derek, ISC had been through several audits and financial investigations, a rights issue and the merger before the phantom contracts manifested themselves.

Looking tired and deflated after a month's persistent controversy, Sir Derek defended his own record to about 15 shareholders before the meeting was adjourned until November.

There were indignant questions from two small shareholders who called for his resignation, asked if he was going to receive a "golden handshake" in the event of being required to leave the company and challenged steep increases in directors' pay last year.

Most of the answers were left to Sir John Hoskyns, Ferranti's leading non-executive director and former head of Mrs Margaret Thatcher's policy unit. Sir John's support went no further than to say the management team should be kept on for the time being until the problems were sorted out.

BAe and Thomson said they were co-operating on a 50-50 basis, underlining that they intended to maintain Ferranti's position as a leading UK defence contractor. Operational responsibility for Ferranti's businesses would be shared, but BA would assume overall management.

Ferranti's shares finished 4½p down yesterday at 55p, mirroring the overall decline in the stock market.

Lex, Page 22

Matra to spin off space systems

By William Dawkins in Paris

MATRA, the French defence and electronics group, will, in the next few days, take the first step towards spinning off its profitable space systems business, a prelude to a possible link-up in space electronics with GEC and Daimler-Benz.

The move, confirmed by a Matra official yesterday, comes against increasing speculation that the group will shortly announce a long-awaited partnership with GEC's space and defence electronics subsidiary, GEC-Marconi, possibly to be joined later by Daimler-Benz's Deutsche Aerospace division.

Matra says spinning off its space systems business — which represents about 10 per cent of group sales — would pave the way for a European alliance in which the three partners' space and defence electronics operations could swap shares.

The decision to split off the privately-owned group's satellite-making activities into a new subsidiary, to be named Matra Defence Espace, is expected to be made at a Matra board meeting early next week. This would have to be ratified later by a meeting of shareholders, among them GEC and Daimler-Benz, which each own 5 per cent of the French group.

Discussions are taking place at the highest level with both companies, said the Matra official. "We want to create something at a European level and we want to do it with our British friends and our friends from the other side of the Rhone," he said.

The aim was to create a business big enough to compete against the US space industry, where last summer Matra paid between $180m and $200m for the defence electronics and space activities of Fairchild Industries.

First negotiations between the European trio early this year envisaged the West German and British companies taking 20 per cent each in the new Matra offshoot. Matra would then take 20 per cent stakes in GEC-Marconi and Deutsche Aerospace. Officials would not comment on whether the final deal would follow the same lines but said that Matra was interested in co-operating with GEC-Marconi's defence and space division, but not with its radar business.

Matra's space electronics business employs 1,600 people and is expected to produce a turnover of FFr2.1bn this year, on group sales of FFr20bn ($3.13bn). It is said to be the most profitable part of Matra.

Mannesman to raise DM580m

By Andrew Fisher in Frankfurt

MANNESMANN, the West German engineering group which recently announced a strategic link-up with Britain's TI, is to raise DM580m ($305m) through a rights issue to build up funds for acquisitions.

Althongh Mannesmann's name has recently been linked with several German companies, most notably Nixdorf, the computer concern, and armaments maker Krauss-Maffei, it made clear yesterday that it had no specific targets in sight at present.

It repeated that it had had no contacts with Nixdorf, which has been losing money after a long period of rising profits, and had not made or received any proposals concerning the computer company.

However, Mannesmann said it was interested in buying a stake in Krauss-Maffei if the opportunity arose. But no negotiations were taking place at the moment, it said.

MBB, the aerospace group, has to dispose of its 12.5 per cent shareholding in Krauss-Maffei under the terms of the takeover of MBB by Daimler-Benz.

Mannesmann said its new shares would be available in November on a *one-for-nine* basis at a price of DM200. This compares with yesterday's closing price of DM280.

Since the start of this year, the shares have gained around 30 per cent.

The rights issue is the latest of several by German companies at a time of continued stock market buoyancy. Dresdner Bank, Lufthansa and Daimler-Benz have all announced capital increases in the past few weeks.

Maunesmann said it intended to use the money to continue the restructuring which has put it in a strong position at a time of surging orders for German machinery.

It wants to reduce further the share of steel tubes in its total business below the present 22 per cent; in 1970, these formed almost half its turnover.

One of the reasons for the German company's acquisition of a 5 per cent holding in TI for £41m ($66m) was to explore acquisition opportunities in Europe or in the US, where TI is strong and Mannesmann wants to expand.

The German company has made modest purchases in the US.

Mannesmann's latest figures showed the extent to which it was sharing in the flow of orders into the German engineering industry, with a 54 per cent rise in new business during the first half of 1989 in its *machinery* and *plant division*, inclnding the Demag and Rexroth subsidiaries.

Total group orders were 26 per cent higher at DM13.4bn and net profits advanced by 28 per cent to DM179m.

Outokumpu helped by metal prices

By Enrique Tessieri in Helsinki

OUTOKUMPU, the state-owned Finnish base metals gronp, yesterday reported a 32 per cent increase in turnover to FM7.69bn ($1.79bn) for the year ended August and a rise from FM1.17bn to FM1.66bn in operating profits.

Income before extraordinary items rose from FM573m to FM995m while income before appropriations went up to FM880m from FM325m.

Mr Pertti Vontilainen, the chief executive, attributed the group's good performance to high world prices (especially copper, zinc and nickel) and to the favonrable impact of recent acquisitions.

The outlook for metal prices remained favourable. There were no signs of any pending significant decrease in prices, Mr Voutilainen said.

However, a strike by 128 members of the Metalworkers' Union at Outokumpn Steel's stainless steel melting shop in the northern Finnish city of Tornio had forced the company to shut down its hot rolling mill prodnction there.

Outokumpn sources added that if the strike continued it would also be forced to shut its cold rolling mill.

FLS to launch DKr700m issue

By Hilary Barnes in Copenhagen

FLS INDUSTRIES, ona of Denmark's largest industrial groups, will tomorrow launch a DKr700m ($100m) share issue, its first equity offering since 1982.

The group, best known for cement mill construction, consists of some 175 companies in seven divisions, including engineering, building materials, packaging, investment services, aircraft repair and maintenance.

It is controlled by Potagua, a family-controlled investment company. Its effective shareholding will be diluted from 57 per cent to just above 50 per cent when the planned share issue, consisting of 1m B shares, gets underway tomorrow. Group turnover last year was DKr8.06bn, about 53 per cent of it in Denmark, where the group dominates the building materials market.

Mr Birger Riisager, FLS chief executive, said turnover was expected to increase by about DKr1bn annually for the next few years, boosted by organic growth and acquisitions.

The group's earnings record over the past decade has been mixed. But tha corner may have been turned following a shake-up of top management and structural reorganisation.

Last year pre-tax profits recovered from DKr71m to DKr308m and the improved performance was maintained in the first half of the current year. Interim 1989 pre-tax profits increased from DKr171m to DKr202m on turnover up from DKr3.4bn to DKr4.11bn.

The recent announcement that FLS's engineering division had secured new orders worth about DKr1bn, inclnding cement plant in Poland and the US and a pulp plant in West Germany, underlined the improved trading environment.

New engineering orders so far this year total DKr3.5bn, almost double those taken by the division in recent years. Profits for 1989 are expected to be "very satisfactory."

Perstorp 13% ahead for year

By John Burton in Stockholm

PERSTORP, the Swedish speciality chemicals and plastics group, yesterday reported a 13 per cent increase in profits after financial items to SKr685m ($105m) for the year ended August, compared with SKr605m in the previons year.

Sales rose by 25 per cent to SKr6.42bn, of which companies acquired during the year accounted for 12 percentage points.

However, the gronp added that the new acquisitions had not yet made any noticeable contribution to earnings.

The group invested SKr840m in plant and acquisitions, a rise of 50 per cent. The rapid growth in investment increased the need for external financing and the group made two new share issues during the year, including one on the Paris bourse. Between them they raised SKr450m.

Earnings per share rose to SKr16.65 in 1988-89 compared with SKr15.50 and Perstorp plans to lift its dividend per share from SKr3.03 to SKr3.75.

The components divisions reported the biggest gain in sales, np 77 per cent to SKr856m. This reflected the acquisition of the acoustical business activities of the Beckers group, which has plants in Sweden and North America. It supplies acoustical components to the motor industry.

The surface materials division reported a 29 per cent increase in sales to SKr1.73bn, boosted by acquisitions in the decorative laminates area.

Parkfield to make videos from Pathé film library

By Jane Fuller in London

PARKFIELD GROUP, the UK manufacturing and entertainment mini-conglomerate, is delighted with its purchase of the British Pathé News Library from Weintraub Entertainment, of Los Angeles and London.

The assets, acquired for $16m (£10.2m), comprise more than 12m ft, or 2,300 hours, of newsreel covering events from 1896 to 1970.

Among the gems in the Pathé News and Pathé Pictorial archives are Queen Victoria's Diamond Jubilee, the Wright brothers' flight at Kitty Hawk in 1903, two world wars and the swinging sixties.

Mr Roger Felber, chairman, said Parkfield would use the library to make documentaries.

It was already making videos about contemporary subjects, such as the England footballer Gary Lineker, but Pathé would herald a departure into history.

All sorts of ideas were being mulled over for the four releases a month scheduled from next June: such famous figures as Churchill or Stalin; the histories of popular subjects such as royalty or aviation; and hard old news – "great disasters," for example.

It was through seeking old film footage that Parkfield uncovered this "Aladdin's cave" of preserved news.

"We wanted to make 40 videos entitled The Year You Were Born, covering the years 1930 to 1989. And the production people kept going back to the same source: Pathé.

"We suddenly realised that you could do the histories of the Olympics, Wimbledon, the Kennedys, the Beatles. The footage was being under-used," said Mr Felber.

Although Pathé has no history of income or profits, it has been part of an eventful ownership scene.

In 1986, Thorn EMI sold it as part of its extensive film library to Bond Corporation, which rapidly passed it on to the Cannon film company.

Weintraub, which has a film library, makes motion pictures and promotes concert artists, bought it in May 1987.

BNP buys small US bank

By George Graham in Paris

BANQUE Nationale de Paris (BNP), the largest French state-owned bank, is to boost its presence in the US banking market with the purchase of Central Bank, a small Californian bank, from Central Banking System for $54m.

BNP's Californian subsidiary, Bank of the West, ranks eleventh in the state, with total assets of around $1.8bn and 45 branches, mostly in northern California.

The acquisition of Central Bank will double Bank of the West's branch network and add around $1bn of assets. The combined network will be concentrated in the Bay area around San Francisco and in Central Valley. BNP last year launched a $100m bid to take over WestAmerica Bancorp, a medium-sized Californian bank, but was rebuffed by the board and withdrew its offer.

Central Bank, meanwhile, has recently suffered some difficulties, and has been required by state banking regulators to make provisions for bad debts.

The bank said its tangible net worth was $36.7m, including these charges but offset by $13.5m from the sale in July of some insurance activities.

If the audit of Central Bank now under way finds that its net value is less than $54m, the price will be reduced dollar for dollar down to $37.5m; if the value is found to be less than this, BNP has the option to withdraw from the transaction.

● Compagnie Financière de Suez is close to agreeing the sale of Banque Française Commerciale, its regional banking unit, to Istituto Bancario San Paolo di Torino, the Italian state bank. The sale, which has been under discussion since June, should be finalised this month, Suez said.

Suez plans to sell a 92 per cent stake in Banque Française Commerciale which has 25 branches, mostly in south-eastern France. Its net profit in 1988 was FFr23.3m ($3.64m) and its balance sheet totalled FFr3.1bn.

SE-Banken profits rise 4.5%

By Robert Taylor in Stockholm

SKANDINAVISKA Enskilda Banken, Sweden's largest commercial bank, yesterday announced an increase of 4.5 per cent in group operating profits for the first eight months of the year to SKr3.195bn ($493m).

At the same time the bank's board expressed its full confidence in Mr Jacob Palmstierna, its chairman, who is under investigation by the tax authorities over alleged irregularities.

SEB's lending in Swedish krone rose by 12.2 per cent to SKr67.51bn, while the bank's borrowing went up by 6.7 per cent to SKr63.83bn. There was a much stronger performance in lending in foreign currencies of 37.2 per cent to SKr92.77bn in the first eight months, while borrowing in foreign currencies rose by 43 per cent to SKr95.54bn.

The bank still predicts that results for the whole of the year will be better than in 1988, when there was a 16 per cent growth in the group's operating profits to SKr4.67bn.

Group costs for the first eight months increased by 10.1 per cent, substantially lower than last year. Profit per share increased to SKr9.40 compared with SKr8.87.

Alivar-Barilla joint venture given boost

By John Wyles in Rome

NEGOTIATIONS between Alivar and Barilla on a new public-private joint venture in the Italian food industry were given a preliminary political blessing yesterday by Mr Carlo Fracanzani, the Minister for State Shareholdings.

Although no final agreement has yet been reached, Alivar's parent, the state-owned SME holding company, has revealed it will hold a 51 per cent majority stake in the joint venture, which is expected to bring together some of the two companies' bakery businesses.

Barilla, however, will have management control.

The symbolic importance of any such agreement is that it would finally close the SME privatisation affair. The sale of the state holding to Mr Carlo De Benedetti in 1985 was blocked by the Government and Barilla formed part of a rival consortium which hoped to succeed where Mr De Benedetti had failed.

The Italian Government is now firmly opposed to privatising SME but, as Mr Fracanzani made clear yesterday when he spoke approvingly of the prospective Alivar-Barilla agreement, it is much in favour of SME making joint venture agreements with the Italian private sector.

This would allow the strengthening of a domestic industry which is being increasingly penetrated by foreign investors.

Visa names Kosciusko next head

By David Barchard

MR JACQUES KOSCIUSKO, general manager for retail banking at Crédit Lyonnais, is to be the next head of Visa International's European and Middle Eastern operations from early next year.

His appointment comes at a time of upheaval in the European credit card market.

Though Visa International is the market leader in the UK – where Visa's European headquarters are based – and France, it has still not won the approval of the main banks in Germany and some other northern European markets, where Eurocard is the credit card branding preferred by most banks.

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INTERNATIONAL COMPANIES AND FINANCE

Search for chip partners stepped up

US Memories is facing an uphill battle, reports Louise Kehoe

Mr Sanford Kane has spent the past three months travelling around the US in search of money. His task is to raise funds for an extraordinary collaborative venture in semiconductor manufacturing.

US Memories aims to become a premier American manufacturer of dynamic random access memory (Dram) chips, data storage devices used in all sorts of computers.

It has quickly become the focus of attention in Washington, where it has been variously characterised as a dangerous step towards destroying the American entrepreneurial spirit and as a symbol of efforts to re-establish US industrial competitiveness.

The US computer industry is dependent for about 80 per cent of its Dram supplies upon Japanese chip manufacturers. Several US chip makers, including Intel, the inventor of the Dram, claim they were forced out of the market by unfair Japanese competition in the early 1980s.

US electronics industry executives want to redress the balance but the cost of re-entry into the Dram market is prohibitive.

A state-of-the-art Dram fabrication plant costs about $300m, so industry leaders hatched a plan to share the cost by forming the first US manufacturing consortium, and in June they appointed Mr Kane to head the venture.

US Memories' mission is clear. US chip makers need Drams so they can offer customers a full portfolio of semiconductor products and compete successfully with their Japanese rivals. US computer makers want to reduce their dependence upon foreign Dram suppliers, most of whom are also big competitors in the computer market.

Mr Kane, a former IBM executive, has the promise of support from seven of the largest US electronics companies, including IBM, which will not only contribute funds, but also its latest Dram technology.

Other committed supporters are Hewlett-Packard, Digital Equipment, Intel, National Semiconductor, Advanced Micro Devices and LSI Logic.

US Memories needs about 20 more companies to sign up as investors. Hence, the peripatetic Mr Kane is meeting with executives at some of the largest US electronics manufacturers.

Each company is being asked to contribute $50,000 in "seed" capital to US Memories and to take an equity stake of between 1 and 10 per cent in the venture. In all, Mr Kane must find $500m to $600m of equity capital. In return stakeholders will receive a guaranteed source of Drams in proportion to their investments.

Simultaneously, Mr Kane and others are trying to persuade Congress to loosen anti-trust laws to allow US companies to form manufacturing consortia. Although he stresses that US Memories needs no anti-trust exemption, it is clear that a change in the law would encourage some companies to participate.

Time is short. Mr Kane says he aims to complete the financing arrangements by mid-November so that construction can start on a large semiconductor fabrication plant by the year-end and products can begin to be shipped by mid-1991.

The "window of opportunity" for US Memories is narrowly defined by the inexorable progress of semiconductor technology. The 4-megabit Drams US Memories plans to make are being produced by leading Japanese suppliers, which are developing the next generation of 16-megabit Drams.

So far, Mr Kane has met executives at 17 US companies. He plans to reach another 20 or so this month and hopes to be able to announce "two or three" new investors soon. These are expected to include AT&T and perhaps Tandem Computer.

Jack Kuehler of IBM: providing cash and know-how

It is becoming clear, however, that US Memories faces an uphill battle in gathering financial support.

Some of the largest US purchasers of Drams, Apple Computer, Compaq Computer and Sun Microsystems, are lukewarm about the project. Last week Apple Computer said it would not invest at this time. Compaq Computer said it was "not actively considering" an investment in US Memories, while Sun Microsystems seems to have put the issue on the back burner.

According to industry insiders, Apple and others have chosen to place long-term large supply contracts with existing US Dram manufacturers, such as Texas Instruments and Micron Technology, rather than turn to an unproven venture.

US Memories also has some vocal opposition to contend with. Mr T.J. Rodgers, one of Silicon Valley's most outspoken entrepreneurs, recently announced an alternative plan. IBM, he suggested, should license its Dram technology to his company, Cypress Semiconductor, as well as to US Memories.

"If the goal is to get an American-manufactured 4-megabit Dram into volume production as quickly as possible, an IBM partnership with Cypress Semiconductor should be an attractive option," he claimed. Cypress is a six-year-old $200m semiconductor maker.

US Memories' supporters see Mr Rodgers' proposal as a deliberate attempt to scuttle their plan.

In earlier Congressional testimony, Mr Rodgers argued vociferously against changes in the anti-trust law to benefit US Memories. Positioning himself as the "entrepreneur" threatened by a "government-subsidised Japanese-like consortium," he won some sympathy in Washington.

He claims that US Memories, and Sematech, the research consortium, have been set up to benefit a small number of ailing "fat cats" in the industry, rather than the industry as a whole.

Indirectly, Mr Kane has countered Mr Rodgers' main objections to US Memories by stating "categorically" that he will not seek government financing and by announcing the formation of a limited partnership that will enable small companies to participate in US Memories.

Mr Rodgers' proposal is, however, a bold challenge to IBM, which has masterminded the US Memories plan.

"We will take his request to heart. We will evaluate his proposal," Mr Jack Kuehler, IBM's president, promised in response to questions from the House Judiciary Committee last week.

What may ultimately determine the fate of US Memories are the price and availability of Japanese-made Dram chips.

After suffering several months of Dram shortage, US computer makers are reporting that supply problems are easing and chip prices are lower, factors that remove much of the urgency that prompted initial support for US Memories.

Write-off at Data General

By Louise Kehoe in San Francisco

DATA GENERAL, the US minicomputer manufacturer, has announced an extensive consolidation plan involving the sale of two factories and the closure of another. The company is also to reduce its workforce by 2,200 people, or about 15 per cent.

The group said it would take a charge of about $80m in the fourth quarter ended September 30. However, the cuts would save more than $95m in annual costs, it added.

Like other minicomputer manufacturers, Data General has seen its markets eroded by lower-cost microcomputer-based systems. It has also been forced to revamp its product lines to incorporate "industry standard open systems," breaking with its tradition of proprietary hardware and software.

"Data General is in the midst of a transition to become a balanced provider of open and proprietary computer systems, a transition that is currently ahead of schedule and positions us well for the 1990s," said Mr Ronald L. Skates, chief operating officer.

Strong sales of both its traditional and new products would result in record fourth-quarter revenues, the company said.

"We anticipate that the company will be near break-even operating results for the fourth quarter before a one-time charge to effect the consolidation," Mr Skates added.

Asko loses Ahold court battle

By Haig Simonian in Frankfurt

ASKO, the West German stores group, yesterday failed in its bid to force Ahold, the Dutch supermarkets chain, to re-enter the co-operation talks summarily broken off by the Dutch in late August when Asko bought 12 per cent of its shares.

"We have won this case on the facts", said Mr Paul Butzelaar, the head of Ahold's legal department.

Asko had claimed that it had an oral agreement with Ahold to join the European retailing alliance being forged with Casino of France and Argyll in the UK. Alternatively, it argued that the discussions were so far advanced that Ahold could not break them off in good faith.

The court rejected the claims "in every point", according to an Ahold official, in a decision which will now put the focus on Asko's next move.

That could come as soon as Ahold's extraordinary general meeting tomorrow, when shareholders will be asked to approve changes in the group's articles of association and an increase in its authorised share capital to Fl 400m ($187.8m).

Asko raised its stake to over 15 per cent before Ahold issued new preferred shares which effectively halved its stake. Since then, the Germans have tried to opposed the increase in authorised capital, and claimed the meeting will be inquorate.

According to Ahold, that would not be unusual in view of its widely-spread share ownership and would only involve a 2-4 week delay. The meeting could then reconvene without the quorum requirement.

AGF registers steady growth

By William Dawkins in Paris

ASSURANCES Générales de France (AGF), the country's second largest state-owned insurance company, yesterday unveiled a 15.3 per cent rise in turnover and a 10.5 per cent rise in net profits for the first six months of this year.

The group warned that this performance, which is mainly a result of the continuing strength of the French life insurance industry, should be viewed with caution, since the flow of earnings is irregular.

However, it forecast that net consolidated profits this year would still beat the 1988 total of FFr2.1bn ($328m).

Turnover rose to FFr18.2bn in the six months to June, from FFr15.8bn in the same period of last year. Some 13.3 per cent of the increase came from internal growth, with the remaining 2 per cent from new contributions.

Net profits rose to FFr1.63bn, from FFr1.47bn in the first half of last year.

● Axa-Midi Assurances, the merged insurance interests of Compagnie du Midi and Groupe Axa, said 1989 group net profit would rise about 11 per cent to FFr2.1bn from FFr1.9bn in 1988.

Mid-term attributable profit was FFr822m, against FFr1.7bn in 1988's first half which included exceptional gains of more than FFr1bn.

Gain at Abbott Laboratories

THIRD-QUARTER earnings of Abbott Laboratories, the US healthcare group, advanced to $196.3m or 88 cents a share from $172.3m or 76 cents, on sales of $1.31bn against $1.21bn, writes Our Financial Staff.

The latest increase was attributed to productivity improvement, higher volume and e better product mix.

Net income at the nine-month stage was $606.8m or $2.71 a share against $529.7m or $2.34 last time on sales up to $3.92bn from $3.65bn.

INTERNATIONAL COMPANIES AND FINANCE

Government rules out help for DFC

By Terry Hall in Wellington

THE NEW ZEALAND Government is staunchly refusing to bail out the failed DFC New Zealand merchant bank in spite of a growing political row and accusations from overseas investors that they were misled over its financial standing.

Miss Ruth Richardson, the Opposition financial spokeswoman, said the Government had no option but to help DFC because of a "carefully developed illusion" that it had a government guarantee when it was privatised last year.

DFC is now controlled by the quasi-state National Provident Fund (NPF), while Salomon Brothers of New York holds 20 per cent. Both have declined to inject new funds.

Miss Richardson said letters released yesterday by Mr David Caygill, Finance Minister, would make New Zealand a "pariah in the international marketplace."

The release of these letters followed accusations by Standard & Poor's, the New York rating agency, and a number of Asian and other international lenders that they believed DFC would have shareholder support. The letters showed that the NPF failed to advise international institutions in June when it withdrew a NZ$200m (US$116m) facility it offered DFC last year.

The NPF says it left it to DFC to pass on this advice, even though it was the fund that advised initially of the facility in July last year, in a letter that did not contain an annual review clause.

Mr Caygill revealed the hefty volume of letters after a Reserve Bank and Treasury inquiry into accusations from overseas financiers that the warranty still applied. Mr Caygill said some of these institutions, which are DFC's main creditors, had expressed concern and anger.

Asian bankers representing some DFC creditors are flying to New Zealand this week for talks with government officials and the statutory managers, who are effectively the bank's receivers.

The bankers are expected to express concern that DFC was allowed to fail without the NPF or the Government attempting to save it. The statutory managers have yet to release a statement on their initial investigations into the collapse. This is expected later this week.

Mr Caygill defended the actions of the NPF, arguing that it was not its responsibility to advise the institutions of the withdrawal of the warranty. Moody's, the rival US rating agency which downgraded DFC four times in the past year, yesterday said that unlike S&P it did not believe that the Government or the NPF would stand behind the bank.

Bond shares fall on threat to brewing deal

By Chris Sherwell in Sydney

A FURTHER bout of selling yesterday drove Mr Alan Bond's Bond Corporation shares to a fresh low of 25 cents on the Australian Stock Exchange, down 4 cents on the day, amid renewed nervousness about the group's delayed results and its proposed A$2.5bn (US$1.9bn) brewing sell-off.

The fall, which at one point pushed the shares to 23 cents, reflects fears that the vital brewing deal – due to be set in motion formally on October 18 – may not go ahead without publication of Bond Corporation's accounts.

The group has again said they cannot be completed before the end of the month.

In a related move yesterday, the exchange authorities suspended short-selling in Bond Corporation shares until further notice because the market capitalisation of the company had dipped below the regulation A$100m.

Yesterday's developments followed a call on Monday from the National Companies and Securities Commission (NCSC), Australia's stock markat watchdog, for Bond to complete the audit of its results for the year to June "without further delay."

Earlier that day the group had repeated that it could not meet the stock exchange's deadlines for announcement of its results and again blamed the delay on the NCSC's investigations into certain Bond Corporation transactions.

Technically the results were due before the end of September and the company faces suspension from trading if they do not materialise by October 23, or 15 working days late. Also facing the deadline are Bell Group, Bell Resources and J.N. Taylor.

The separate brewing deal deadlina of October 18 was named by Bond Corporation as the data by which its formal offer document for the minorities in Bell Resources would be registered.

This A$1.60-per-share offer is a key step in a complex transaction under which Bond's Australian brewing interests are to be soid to a Bell Resources subsidiary for A$2.5bn.

Lion Nathan, the New Zealand brewer, is then to take a 50 per cent interest in the subsidiary, to be called Australian Breweries, which it will manage. The deal, which still needs approval of the Foreign Investment Review Board, aims to help the dabt-burdened Bond Corporation to meet its bankers' demands, but will distance it from the cashflow of its brewing interests.

Dallhold wants to revive Philippines bid

By Greg Hutchinson in Manila

MR ALAN BOND wants to bid anew for the Nonoc nickel mine and refinery in the Philippines, a mothballed bnt valuable asset whose sale to a locally-led consortium is now in doubt.

Mr Peter Matheson, executive director of Dallhold Nickel Management, part of the private family arm of Mr Bond's empire, said Dallhold was interested in regaining Nonoc Mining and Industrial Corporation by entering into a service contract with the sellers. He did not elaborate on the proposal, which is evidently aimed at avoiding the 40 per cent limit on foreign ownership of Philippine natural resource projects.

These foreign equity restrictions scuttled his agreement earlier this year to purchase the project.

Mr Bond's reappearance when his empire elsewhere is shrinking is surprising. Also it was believed the sale of Nonoc had been settled more than two months ago in favour of a group led by Mr Jesus Cabarrus, the former owner.

The Asset Privatisation Trust, a government organisation charged with selling state holdings, approved the acquisition by Mr Cabarrus's Philippine Mining and Industrial Corp (Philnico) on August with a proviso that Philnico secure the conformity of all creditors on the settlement of the debts of Nonoc within 60 days.

This has not been done and APT officials and Philnico were meeting yesterday to map out a future course.

Philnico was to have settled on a purchase price of US$325m and the assumption of all Nonoc's debts of about $70m under the August memorandum of agreement. Nonoc, dormant since March 1986 when insufficient operating cash forced a strike and shut it down, now has improved prospects with buoyant nickel prices.

It has been a different story for other assets on the APT privatisation list, debt-strapped enterprises acquired by the state during the 20-year rule of the late President Ferdinand Marcos. Businessmen have complained that for these the trust has set its sights too high.

Two public auctions attracted no bidders last week and two others were declared a failure after only one buyer submitted a bid.

No buyers came forward for Paper Industries Corporation of the Philippines, the country's biggest pulp and paper company, or for a condominium building, while Associated Bank, a medium-sized commercial bank, and a cotton ginneries company attracted only one bidder each.

A pricing system that sets a minimum regarded as too high and the delapidated condition of many of the assets are blamed for the lack of interest.

Australian state bank arm puts parent in red

DISASTROUS lending by Tricontinental Holdings, the merchant banking offshoot of State Bank of Victoria, has resulted in an A$196.6m (US$152.9m) net loss for the parent bank in the year to June, writes Chris Sherwell.

The shortfall, reported yesterday, was the bank's first, and an embarrassment for the atate Labor Government headed by Premier John Cain. It prompted immediate calls from the state Liberal Party Opposition for the resignation of the responsible state minister.

The figures showed that the bank itself managed a net profit of almost A$78m, despite hefty provisions in relation to its lending to the Victoria branch of the National Safety Council rescue organisation.

That body collapsed earlier this year following the disappearance of its head, Mr John Friedrich, and yesterday the bank, which lent it around A$100m, called the case and the circumstances "unique and bizarre."

Tricontinental itself reported pre-tax losses of A$374m, after eufferiug a series of bad debts resulting from aggressive but ill-conceived lending against shares and property, both of which weakened substantially. Mr Ian Johns, tha merehant bank's former chief, is separately facing chargee of insider trading.

A bad result from the group had been expected since July, when State Bank announced that several Tricontinental borrowers had encountered difficulties meeting their commitments and the recoverability of a number of its loans was in doubt.

The revelation followed a decision in May to absorb Tricontinental directly after failing to merge it with Australian Bank, whicb it had bonght earlier in the year.

Paladin heeds warning on using NZ offshoot shares

PALADIN, a Hong Kong property and investment company, has decided not to use shares held by a New Zealand subsidiary to prevent a group of minority shareholders from ousting five board directors at its annual meeting on October 23, writes John Elliott in Hong Kong.

This follows a warning from the colony's regulatory anthorities that Paladin would be delisted if it used the shares.

Two months ago New Zealand Equities, a New Zealand company already linked to Paladin, used its controlling block of shares to push through a controversial merger with Paladin in defiance of the authorities.

The Paladin decision is also in line with firm advice given by Schroders Asia, its financial adviser.

It means that there could now be a close vote at the October 23 meeting because dissident minority shareholders, led by the Oung family of Taiwan, are believed to have considerable support for their attempt to oust existing directors.

Robt. Jones to raise NZ$101m

ROBT. JONES Investments, a New Zealand property company, is to raise NZ$101m (US$59m) through a one-for-six share issue, AP-DJ reports from Wellington.

The shares will be issued at NZ$1. Ahead of the announcement, Robt. Jones shares closed on Monday at NZ$1.32.

Mr David Moriarty, managing director, said the company had "embarked on a sizeable expansion programme" in recent months.

The share issue is fully underwritten.

INTERNATIONAL CAPITAL MARKETS

Treasuries edge up amid debate over Fed easing

By Janet Bush in New York and Rachel Johnson in London

US Treasury bonds started off weak yesterday but then moved modestly higher amid continuing debate over whsther the US Federal Reserve is engineering an easing in monetary conditions.

At midsession the Treasury's

GOVERNMENT BONDS

benchmark long bond was quoted 1/16 point higher, for a yield of 7.98 per cent.

Speculation that the Fed has started easing conditions has been dominating market talk since last Friday's release of September employment figures, which appeared to provide evidence of further weakness in manufacturing industry.

Since then, however, the Fed's open market operations have not clarified whether the central bank is indeed easing. On Friday the Fed drained liquidity through five-day matched sales and yesterday it surprised many analysts by announcing two-day matches.

The central bank is known to have a need to drain reserves at the moment, and softness in the Fed funds rate may reflect the fact that the money market is awash with liquidity in spite of the draining operations.

At midsession yesterday the funds rate dropped to a low of 8 1/16 per cent, which seemed to encourage hopes that an easing was in fact taking place. Bonds were also helped by strength in the dollar.

■ THE UK Government bond market suffered from sterling's weakness for the second day in succession, as foreign exchange dealers sold the pound below the "resistance level" of DM2.95.

Gilts relinquished the small gains made earlier in the day as a consequence. Long-dated Eurosterling corporate bonds fell on average by more than 1¼ points, reflecting the fact that the day's losses were much heavier at the longer snd. "Short-dated stocks didn't really suffer at all," a trader said. The Treasury benchmark 2003/07 bond lost 13/32 from Monday, to close at 110.26.

The December futures contract traded down to a low of 91 13/32, after the day's highs of 92 6/32.

■ DUTCH GOVERNMENT bond prices slipped by up to 20 cents yesterday, as most activity focused on the Government's launch of the new 10-year 7.5 per cent bond to raise up to Fl 4bn. This effectively absorbed trading interest during the day, and the bond traded at 100.75 on the unofficial "grey" market, after its launch at 100.25.

The Dutch bourse index fell a point lower to 105.7, with average yields unchanged at 7.47 per cent – still lower than money market rates. But buying interest of guilder bonds is predicted to pick up soon, as investors turn away from German Bunds, which have yields about 30 basis points lower than Dutch government bonds.

Both markets, however, are expected to recover from the launches of federal bonds this week, which have hindered the markets from maintaining normal levels of trade. Although there was not a great deal of demand for the new Dutch bond, it has driven prices lower, which should stimulate some buying interest once the supply is over.

■ IN Germany, the government bond market opened "firmly," but made steady small losses during the day to lose a ¼ point on a slow day's trading.

■ COMPARED with the activity in the UK and Dutch markets, French government bonds were listless in directionless trading.

The December futures contract opened at 107.34 and proceeded to trade down during the day, finishing at 107.08 to mimic the falls in the US market.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	9/92	103-31	+9/32	11.86	11.68	11.08
		9.750	1/98	94-19	-6/32	10.75	10.66	10.34
		9.000	10/08	93-24	-22/32	9.73	9.60	9.41
US TREASURY *		8.000	8/99	99-28	+3/32	8.01	8.24	8.17
		8.125	8/19	101-12	+2/32	8.00	8.19	8.10
JAPAN	No 111	4.600	6/98	95.6056	-0.170	5.34	5.28	5.32
	No 2	5.700	3/07	105.1514	-	5.14	5.11	5.18
GERMANY		6.750	6/99	98.3500	-0.200	6.98	7.00	6.87
FRANCE	BTAN	8.000	7/94	95.8725	-0.069	9.14	9.10	8.88
	OAT	8.125	5/99	95.9600	-0.220	8.74	8.79	8.45
CANADA *		9.500	10/98	99.9750	+0.050	9.60	9.75	9.60
NETHERLANDS		7.250	7/99	98.9700	-0.255	7.40	7.40	7.15
AUSTRALIA		12.000	7/99	91.2411	+0.001	13.64	13.63	13.03

London closing, *denotes New York morning session
Yields: Local market standard   Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on October 10

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Alberta 9¼ 95	600	103⅛	103⅜	+0⅛	+1⅛	8.60
Austria 9¾ 93	140	102⅝	102⅞	+0⅛	+1⅛	8.68
B.F.C.E. 8⅞ 94	175	98⅞	99½	+0⅛	+0⅞	8.79
B.F.C.E. 9⅛ 95	150	102½	102⅞	+0⅛	+1½	8.67
Brit. Tel. Fin. 9⅝ 98	250	103⅝	104⅞	+0⅛	+1⅛	8.71
Canada 9 96	1000	102⅞	103½	+0⅛	+1⅛	8.33
Canadian Pac 10⅜ 93	100	*102⅞	102⅞	0	0	9.57
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Canada 6⅛ 91	80	100⅛	100⅜	0	0	5.60
Canada 5⅝ 93	80	100⅛	100⅜	0	-0⅛	5.54
Eurofima 5 1995	20	97⅛	97½	0	-0⅛	5.58
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MCA Inc 5¼ 02 US	1/87	69.62	106⅛	107½	+1	9.96
Mitsubishi Bk. 3⅛ 04 US	5/89	3266.	92⅞	93⅞	-0⅛	3.28
Next Plc 5⅞ 03 £	11/87	4.3	97⅞	98⅞	0	336.10
Nikko Sec. 2⅞ 03 US	14/88	804.	127	128	+0⅛	-2.37
Omnicom Inc. 6 1/2% 04 US	10/89	28.	103	104	0	15.32
Onoden Tateishi 2⅞ 02 US	14/87	1310.	305	305⅛	0	-1.18
Ranks Hovis 4⅛ 03 £	11/88	3.5	127	128	+3	2.35
Redland 7¼ 02 £	11/87	5.4	99⅞	100⅛	-0⅛	4.25
Saatchi&Saatchi 6⅞ 05 £	10/89	4.41	93½	94½	0	18.44
Silicon Graphics 8 04 US	16/89	23.18	111½	112½	0	10.47
Sumitomo Bank 3⅛ 04 US	2/89	4296.	81	82	-0	15.50
Texas Inst. 2¾ 02 US	1/87	82.87	76	77	0	67.37
Utd. Newspapers 8 04 £	10/89	8.77	112	113	+0⅛	120.60
W.R. Grace 6¼ 02 US	9/87	42.12	99⅞	100⅞	+0⅛	17.03

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week = Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte = Date next coupon becomes effective. Spread = Margin above six-month offered rate (‡three-month; §above mean rate) for US dollars. C.cpn = The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day = Change on day. Cnv date = First date of conversion into shares. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

David Burton: equal priority to traders

Liffe unveils plans for automated pit system

By Jim McCallum

THE LONDON International Financial Futures Exchange yesterday unveiled plans for its screen-based after-hours trading system which it hopes will keep it at the forefront of European futures trading.

Automated Pit Trading (APT), the system the exchange has been developing over the last two years and which is aimed at replicating the ecology of the trading floor, will begin operating on November 30.

Mr David Burton, Liffe chairman, said APT was the most advanced automated futures trading system yet devised. It would "enhance Liffe's position as the leading European futures and options exchange."

Initially APT will be open for business after the exchange floor closes and will trade Liffe's Euromark contract between 4.30pm and 6pm.

However, by the middle of December the exchange will have added its Bund contract to the system and by early 1990 options trading will be included. By the middle of next year Liffe expects the majority of its futures and options contracts will be available.

An early-morning session, from 7am until the start of pit trading, could also be included, eventually allowing Liffs to offer a continuous market for 11 hours a day.

But although Liffe has begun the move towards 24-hour trading, Mr Burton denied its traditional floor-based open-outcry method of trading would be replaced by automated dealing. "We hope to marry the best of open-outcry and automated trading. It's never been our intention to replace one with another," he said.

None the less, the speed, low cost and efficiency of APT would help Liffe attract additional business, particularly from European banks and institutions, he added.

Offers to buy or sell futures contracts will be flashed instantly on to trading screens, with business allocated to a dealer offering the best bid or offer price. "APT gives equal priority to traders," Mr Burton said.

The initial subscription will be £15,000, with an additional £900-a-month rental for the workstation.

APT is a vital component of Liffe's new trading support system, known as Liffe Futures and Options Real Time Computer Environment, or Liffeforce. The other part, due to be completed next year, is Liffe's order routing system, whereby clients will send their orders automatically to the trading floor, or APT if the pit is closed.

Telerate, the quote vendor, will be the first company to offer an order routing service, starting early in 1990. Other financial information networks, such as Geisco, owned by General Electric, could follow.

In a separate development, Liffe hinted that it might be close to deciding on a new location. Mr Burton said the exchange was considering "one or two options" and that it hoped to reach a decision "before too long." The two sites being considered are the International Stock Exchange and another location in central London.

US exchanges' merger fails

MERGER talks between the Philadelphia and American stock exchanges have ended without agreement, Reuter reports from Philadelphia.

Mr John Wallace, chairman of the Philadelphia exchange, said yesterday: "We didn't feel at this time that it was in the best interests of the exchange to pursue further discussions regarding a merger."

The talks, which started last summer, broke off last week. Mr Wallace did not know if or when they might resume. Amex officials were unavailable for comment.

Mr Wallace said the Philadelphia exchange's membership had indicated it opposed a merger with Amex at this time. He did not elaborate.

INTERNATIONAL CAPITAL MARKETS

Busy trading dominated by $1.5bn issue for Italy

By Andrew Freeman

A BUSY DAY of new-issue activity on the Eurobond market was dominated by the largest fixed-rate bullet maturity deal to date, a $1.5bn five-year issue successfully brought for the Republic of Italy by Morgan Stanley.

The deal was priced yesterday morning and was launched with an 8½ per cent coupon at a spread of 44 basis points over the equivalent US Treasury. Syndication was in the form of a fixed-price reoffering, with Nomura as joint lead manager.

Members of the underwriting and selling group had conducted extensive pre-marketing of tha deal since its announcement by Morgan Stanley last Thursday. Most members of the group reported good demand, although there was surprisingly heavy trading in the paper in the hours after the syndicate was broken, indicating that some buyers were happy to sell their tickets immediately.

The bonds were quoted as high as 99.95 bid before settling at a locked bid/offer of 99.90, a slight premium to the 99⅞ issue price. A small dip in the Treasury market allowed the spread to tighten to about 42 basis points. Traders said this was appropriate and that they were pleased with the deal's performance.

Morgan Stanley was reticent when it came to elaborating on any swap activity, and it is thought there was long consultstion with Italy on whether it should leave the entire deal unswapped.

However, swap dealers reported a tightening of five-year swap rates yesterday morning as the market anticipated activity and shortly after 2.30pm there was a flurry of dealing. It is thought about $500m was swapped into floating-rate funds.

Elsewhere, an opening of swap opportunities led to a

INTERNATIONAL BONDS

minor rush of five-year Canadian dollar deals, with Société Générale leading the way for Royal Trust. The C$100m issue was priced to yield 91 basis points over Canadian government bonds. The lead manager was quoting the paper at less 1.80 bid, a discount inside full underwriting fees of 1⅞ per cent.

It is thought that proceeds were swapped by Royal Trust into Canadian bankers acceptances.

Wood Gundy brought a C$150m deal for Shell Canada, priced to yield 80 basis points over government bonds. Traders said this offered a good pick-up over existing Shell paper, but the deal came under pressure as the underlying government market traded lower after its launch. The paper was quoted by the lead manager at less 2 bid, outside fees. Proceeds were said to be swapped into floating-rate Canadian dollars.

A C$100m deal for the Vancouver City Savings Credit Union via Algemene Bank Nederland (ABN) was trading on fees at less 1.85 bid.

While there was generally favourable comment about the pricing on all these deals, many traders were reluctant to take large positions, saying there was limited investor demand and that there was a danger of swamping it with too much paper.

In Vienna, Creditanstalt was the lead manager of a Ecu100m 10-year deal for the European Investment Bank aimed at Anstrian retail demand. The bonds were quoted on fees at less 2 bid. Proceeds were unswapped.

In Germany, Westdeutsche Landesbank was the lead manager of a DM200m seven-year deal for the National Bank of Hungary.

The bonds carried a coupon of 8 per cent and were priced at 101.

WestLB said the paper was trading at less 2½ bid to yield 8.29 per cent. The recent Soviet Bank DM500m 7½ per cent issue was yielding about 8.04 per cent.

The last Hungarian deal, an eight-year issue, fell by ¾ point to 99 bid.

There was confusion over the deal's reception, with some banks qnoting the paper all day well outside fees at around less 2.80 bid, saying the pricing was very tight.

WestLB said it had formed a group, but admitted it had had soma declines from banks which said they already had too much Hungarian risk on their books.

DG Bank brought a DM150m seven-year deal with five-year equity warrants for Raiffeisen Zentralbank Oesterreich, formerly GZB Vienna. Each bond carries three warrants.

The issue price was 124, and the lead manager was quoting the paper at 127½ bid.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Italy, Republic of(a)♦	1.5bn	8½	99⅞	1994	¼	Morgan Stanley Int.
CANADIAN DOLLARS						
Shell Canada(a)♦	150	10⅝	101.65	1994	1⅞/1¼	Wood Gundy
Royal Trust Corp.(a)♦	100	10⅞	101⅞	1994	1⅞/1¼	Societe Generale
Vancouver City Savings(a)♦	100	10¾	101⅝	1994	1⅞/1¼	Algemene Bank Nederland
ECUs						
EIB(a)♦	100	8¼	101.20	1999	2/1¼	Creditanstalt Bankverein
SWEDISH KRONOR						
AB Industrikredit(b)♦	300	11¼	101½	1994	1⅞/1¼	SE Banken
D-MARKS						
National Bank of Hungary(a)♦	200	8	101	1996	2¼/1½	WestLB
Raiffeisen Zentralbank(c)♦	150	7½	124	1996	2¼/1½	DG Bank

♦With equity warrants. ♦Final terms. a) Non-callable. b) Fungible with SKr250m issue launched end August. c) Each DM5,000 bond has 3 warrants to buy 71 participation certificates at Sch460 each. Exercise period 5 years.

LTCB Intl announces $200m paper deal

By Andrew Freeman

LTCB INTERNATIONAL has announced a $200m commercial paper programms, arranged by itself and guaranteed by the parent bank. The programme is multi-currency, with denominations in dollars, yen, sterling and Ecu.

Bankers Trust is the issuing and paying agent, while dealers are LTCB, J.P. Morgan, Morgan Grenfell and UBS Phillips & Drew. An LTCB official said the facility was part of the bank's normal funding programme.

● The first sterling CP programme for a UK building society has been arranged for the Heart of England Building Society by Lloyds Bank Capital Markets. Lloyds Bank will be the sole dealer and issuing and paying agent.

The £30m facility is the first to take advantage of changes introduced in this year's UK bndget. The society bas an option to issue certificates of deposit (CDs) or five-year notes, subject to amendments to the 1985 Companies Act.

Larger building societies have not issued commercial paper as they have easy access to the CD market.

Euro Disney offer may close early

EURO Disneyland was on the point last night of closing its FFr3.1bn ($485m) share offering after only two days of subscriptions, George Graham writes from Paris. The offer was originally intended to remain open until October 20.

The Belgian and Luxembourg tranches closed during the afternoon and a decision on the French tranche – 50 per cent of the total – was expected in the evening.

The massive demand for the shares, priced at FFr72 each, has surprised banks handling the issue. Some bank branches were already refusing to take orders by 11am on Monday, the first day of the offering. Other banks, however, said they still had shares available.

The French tranche of the issue was several times oversubscribed on the first day.

VW steers down road to change

Haig Simonian on financial innovations at a West German group

Having supervised earlier this year the biggest-ever revolving credit facility for a West German company, Mr Dieter Ullsperger, the 44-year-old finance director of Volkswagen is surprisingly modest about his role.

Yet there is little doubt that, in the two years since his arrival at Europe's largest car maker, Mr Ullsperger has played an instrumental role in the company's switch to a more flexible and entrepreneurial financing strategy.

In spite of his reticence, Mr Ullsperger is no stranger to publicity. Barely had he been named for the VW post, to which he moved after five years at Klöcknsr-Humboldt-Deutz (KHD), the Cologna-based engineering and farm machinery group, than the car company's finances hit the headlines with revelations about a DM473m ($251.6m) foreign exchange fraud.

Mr Ullsperger, a flnent English speaker who spent 11 happy years in London with Ford of Europe before moving back to Germany and then Switzerland, cites a huge list of changes in VW's forex management instituted in the wake of the fraud.

The group had a strong reputation in forex, but he hints it may have been more for quantity than quality. Understandably, management control has now besn tightened, with stronger headquarters supervision of group forex operations.

The treasury department has been restructured "according to banking principles," says Mr Ullsperger. The new system is "more stringent than Bundesbank requirements, which is only natural in view of our experience."

But it is the changes in VW's borrowing that are most striking.

Among VW's innovations since Mr Ullsperger's arrival have been asset-backed securities deals in the US and a DM800m multi-currency warrant bond in Germany in September 1988, marking the biggest deal of its kind after the stock market crash and the first in Germany to be backed by preference, rather than ordinary, shares.

Since then VW has listed its stock in London, Paris and Tokyo, and become the first German company to launch a sponsored American depositary receipt facility in the US.

Dieter Ullsperger: modest about his role at VW

Furthsr novelties have inclnded a $250m European commercial paper (ECP) programme out of London and Germany's first medium-term note issue, for DM300m, which was launched last month hard on the heels of new Bundesbank rules allowing sucb paper.

The company has also regularly exploited windows to issue bonds in more peripheral currencies, such as Australian dollars, whicb are tben swapped into D-Marks. This month it became the first German borrower to tap the liberalised Lira market, with a L150bn bond.

But no transaction better highlights VW's agility and readiness to exploit new instruments than its maiden $1.5bn standby credit, arranged via J.P. Morgan in London in July. The response to the deal was so positive that the original $1bn was increased by half as much again to meet demand from banks wanting to participate in such a rare transaction for a prime German name.

For while big German companies maintain substantial credit lines with their main domestic banks, they have tended not to adopt the practice abroad. In VW's case, confirmed and unconfirmed lines with domestic banks amounted to about DM1bn, but nothing similar existed abroad.

Mr Ullsperger insists that increasing the group's financial flexibility was the main reason behind the deal, rather than an imminent acquisition or investment in some big new plant, as had been rumoured.

"We wanted to give VW's foreign operations the same flexibility its lines with domestic banks allow at home," he says. While $1.5bn may seem a lot, it is relatively little when seen against the company's huge daily financial flows or its DM65bn annual revenues.

While it has been customary to deal with German banks for such financing – partly because they have tended to be more reliable than foreign institutions – Mr Ullsperger admits their potential is limited. "I know the German market would not have yielded the funds at the terms we obtained," especially given the unusual seven-year maturity.

VW's credit has an annual commitment fee of 8 basis points, with a margin over Libor of ⅛, rising to ¼ if more than half the funds are drawn. Mr Ullsperger admits being "amazed" by the enthusiastic market response.

While the package was fully in line with the company's more flexible financial philosophy, the choica of banks cansed some surprise. "The only new thing was that we didn't arrange it through a German bank, but wanted to go with the foreign banking community."

VW now has a core group of about 16 to 18 banks, which represent its "most competitive and efficient" partners. Deutsche Bank and Dresdner Bank feature prominently, as does J.P. Morgan, which led its ECP programme. Some Wall Street investment banks are also included, although their presence varies, depending on the type of deal involved.

"We pick the banks we want to invite on a specific deal and expect to get the finest conditions in the marketplace," explains Mr Ullsperger. But he stresses that VW is not just looking for one-off backers who will choose the best deals and refrain from participating in others. The company does not expect its core banks to exercise "cherry picking."

"Rock bottom bnt fair" is how he describes VW's expectation of what it sees as a two-way relationship. In spite *of receiving countless* unsolicited offers, it stands somewhere between the long-term corporate bank relationships still common in German industry and the more transactional approach favoured in the US.

Yet even VW may be inching more towards the US model, for all Mr Ullsperger's stress on a balanced relationship. At the end of last year it broke precedent by asking some of its bankers to submit sealed bids on a bond.

Such a technique was unheard of in Germany and "some were surprised. Fortunately, one of our major banks put in the lowest bid. But I wonder what would have happened if they didn't get the transaction," he muses.

So far VW has not drawn down any of its funds from the latest $1.5bn revolving facility. But Mr Ullsperger points out that the deal is meant to be more than just a potential bridge on the liability side.

The facility will also provide greater flexibility in managing its assets, with the chance to exploit investment windows at times when it would prefer not to commit its own considerable liquidity, currently standing at about DM14.5bn.

But there may be another, less publicised, concern at the back of Mr Ullsperger's mind. In spite of the current booming European car market, which has led to record production – and probably profits – at VW, the thought of setting money aside for a rainy day remains important in such a capital-intensive business.

Industry experience has shown the dangers of cutting back on product development spending in the event of a sustained downturn in the market. The result is that companies risk missing the benefits of the next cyclical upturn owing to an outdated range.

A $1.5bn facility could form a comfortable two-year cushion against such an unfavourable turn of events, especially in Germany where labour laws do not allow producers the same flexibility as their US counterparts in making substantial adjustments to the workforce.

In the car business, even DM14.5bn in liquidity does not last long when the market turns really sour, notes Mr Ullsperger.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Tuesday October 10 1989: Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at 25%)	Est. P/E Ratio (Net)	xd adj. 1989 to date	Mon Oct 9 Index No.	Fri Oct 6 Index No.	Thu Oct 5 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (208)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2 Building Materials (29)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3 Contracting, Construction (37)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4 Electricals (10)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5 Electronics (30)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
6 Mechanical Engineering (54)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
8 Metals and Metal Forming (6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
9 Motors (19)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
10 Other Industrial Materials (23)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
21 CONSUMER GROUP (184)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
22 Brewers and Distillers (23)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25 Food Manufacturing (20)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
26 Food Retailing (14)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
27 Health and Household (14)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
29 Leisure (34)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
31 Packaging & Paper (15)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
32 Publishing & Printing (18)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
34 Stores (32)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
35 Textiles (14)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
40 OTHER GROUPS (93)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
41 Agencies (17)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
42 Chemicals (22)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
43 Conglomerates (13)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
45 Transport (13)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
47 Telephone Networks (2)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
48 Miscellaneous (26)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
49 INDUSTRIAL GROUP (485)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
51 Oil & Gas (15)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
59 500 SHARE INDEX (500)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
61 FINANCIAL GROUP (121)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
62 Banks (9)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
65 Insurance (Life) (8)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
66 Insurance (Composite) (7)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
67 Insurance (Brokers) (7)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
68 Merchant Banks (11)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
69 Property (49)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
70 Other Financial (30)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
71 Investment Trusts (68)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
81 Mining Finance (1)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
91 Overseas Traders (8)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
99 ALL-SHARE INDEX (698)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE 100 SHARE INDEX♦	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST

PRICE INDICES	Tue Oct 10	Day's change %	Mon Oct 9	xd adj. today	xd adj. 1989 to date
British Government					
1 Up to 5 years	115.83	[illegible]	[illegible]	[illegible]	[illegible]
2 5-15 years	129.96	[illegible]	[illegible]	[illegible]	[illegible]
3 Over 15 years	138.78	[illegible]	[illegible]	[illegible]	[illegible]
4 Irredeemables	161.46	[illegible]	[illegible]	[illegible]	[illegible]
5 All stocks	127.81	[illegible]	[illegible]	[illegible]	[illegible]
Index-Linked					
6 Up to 5 years	137.86	[illegible]	[illegible]	[illegible]	[illegible]
7 Over 5 years	135.89	[illegible]	[illegible]	[illegible]	[illegible]
8 All stocks	135.89	[illegible]	[illegible]	[illegible]	[illegible]
9 Debentures & Loans	109.65	[illegible]	[illegible]	[illegible]	[illegible]
10 Preference	87.65	[illegible]	[illegible]	[illegible]	[illegible]

AVERAGE GROSS REDEMPTION YIELDS		Tue Oct 10	Mon Oct 9	Year ago (approx.)
British Government				
1 Low Coupons	5 years	[illegible]	[illegible]	[illegible]
2	15 years	[illegible]	[illegible]	[illegible]
3	25 years	[illegible]	[illegible]	[illegible]
4 Medium Coupons	5 years	[illegible]	[illegible]	[illegible]
5	15 years	[illegible]	[illegible]	[illegible]
6	25 years	[illegible]	[illegible]	[illegible]
7 High Coupons	5 years	[illegible]	[illegible]	[illegible]
8	15 years	[illegible]	[illegible]	[illegible]
9	25 years	[illegible]	[illegible]	[illegible]
10 Irredeemables		[illegible]	[illegible]	[illegible]
Index-Linked				
11 Inflation rate 5%	5 yrs	[illegible]	[illegible]	[illegible]
12 Inflation rate 5%	Over 5 yrs	[illegible]	[illegible]	[illegible]
13 Inflation rate 10%	5 yrs	[illegible]	[illegible]	[illegible]
14 Inflation rate 10%	Over 5 yrs	[illegible]	[illegible]	[illegible]
15 Debs & Loans	5 years	[illegible]	[illegible]	[illegible]
16	15 years	[illegible]	[illegible]	[illegible]
17	25 years	[illegible]	[illegible]	[illegible]
18 Preference		[illegible]	[illegible]	[illegible]

♦Opening index 2250.2; 10 am 2258.9; 11 am 2258.7; Noon 2255.5; 1 pm 2255.9; 2 pm 2258.1; 3 pm 2261.2; 3.30 pm 2255.6; 4 pm [illegible]. † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 34p.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	8	87	9
Corporations, Dominion and Foreign Bonds	0	23	18
Industrials	193	921	482
Financial and Properties	101	362	209
Oils	30	23	41
Plantations	1	1	9
Mines	49	28	96
Others	90	56	115
Totals	472	1,501	979

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

TRADITIONAL OPTIONS

● First Dealings Oct 9
● Last Dealings Oct 20
● Last Declarations Jan 11
● For settlement Jan 22

For rate indications see end of London Share Service

Calls in Budgen, Ferranti, Brent Walker, Tusker, Edmonds, Geevor, Kelt Energy, Norfolk Cap, Regentcrest, SleepyKids, Unigate, Walter Greenbank. Put Charterhall. P/C Tusker.

LONDON TRADED OPTIONS

THE LONDON options market had another busy day as the stock market plunged to its lowest level since the middle of July. The demoralisation on the stock market as sterling continued to fall made traders and institutions more hesitant than in recent days to trade the FT-SE 100 index option.

Turnover on the options market amounted to 43,540 contracts and compared with 45,076 on Monday. This total was made up of 26,870 calls and 16,670 puts.

The options market has traded an average of around 45,000 contracts since the beginning of September. Dealers said this reflected the growing selling pressure in the stock market as prices started to fall sharply. Yesterday the stock market's uncertainty over whether the FT-SE 100 index will fall significantly further or stabilise at current levels led to lighter turnover in FT-SE options. The FT-SE traded 7,020 contracts, more than 50 per cent less than on Monday, and below its recent trading levels. The total was divided between 4,798 calls and 2,222 puts. The most actively traded series was the October 2,150 put, which turned over 1,416 contracts.

The most actively traded company option was British Gas. It turned over 3,119 contracts, of which 1,638 were calls and 1,481 puts. The busiest series was the December 180 call, which traded 501 contracts.

Scottish & Newcastle also featured, trading 2,626 contracts. This was divided between 2,817 calls and 9 puts. The most actively traded series was the November 240 call, which traded 1,579 contracts.

Elsewhere, 2,137 Cable & Wireless options changed hands, of which 828 were calls and 1,309 were puts. The most active series was the January 460 puts, which traded 1,000 contracts.

[illegible]

FT-SE INDEX

[illegible]

October 10 Total Contracts 43,540. Calls 26,870 Puts 16,670. FT-SE Index Calls 4798 Puts 2222. *Underlying security price. † Long dated expiry months.

UK COMPANY NEWS

International investment banker wins the hand of Sheffield toolmaker

James Neill agrees to £78m cash offer

By Andrew Hill

JAMES NEILL Holdings, the Sheffield toolmaker, yesterday escaped from the turmoil of bid speculation by accepting a £77.8m cash offer from MMG Patricof Group, an international investment banking and venture capital company.

It is the first deal for the MMG Patricof Europeen Buy-In Fund, which was founded a year ago and manages about £300m on behalf of pension funds and insurance companies.

The fund aims to buy six companies – three British, three French – in the next three years. One requirement is that the targets should be capable of exploiting the single European market.

MMG is short for Multinational Management Group, or "Make Money Grow", according to its directors.

The MMG fund will inject both money and management into Neill, which is celebrating its centenary this year. Three MMG directors will join the board for a year and the fund hopes to refloat Neill on the stock market within about five years.

Neill, which owns brand names such as Spear & Jackson DIY and garden tools, and Eclipse hacksaws, was first approached by MMG in August.

The bidder went on to buy a 3.2 per cent stake, bnt was forced to accelerate its takeover plans after Neill, which has ettracted the unwelcome attention of several predators in the past, announced a sharp cut in first half profits two weeks ago.

MMG's bid vehicle, called Markoffer, picked up e further 9.2 per cent from James Wilkes, the Sheffield manufacturer of beer mats and box machinery, on Monday.

Wilkes said yesterday it had realised e profit of £710,230 on its holding. MMG bought the Wilkes shares at the offer price of 280p, against a market price of 202p when dealings were suspended on Monday morning. Emerging from suspension yesterday the shares rose 33 per cent to 269p.

Yesterday, MMG bought a further tranche of shares in the market. It now owns or has received irrevocable acceptances representing about 50.9 per cent of Neill's equity.

Mr Ronald Cohen, an MMG founder who will become Neill's chairman, said yesterday that it [Neill] "operates in a highly fragmented industry in Europe and e lot of those companies are not performing particularly well. We see this as e perfect opportunity to build up a British-based international group in this area."

Mr Ian Fisher and Mr Paul Bristow of the buy-in fund will also join Neill's board. The gronp's chairman, Mr Hugh Neill, whose family has committed its 12.9 per cent stake to the MMG offer, will become president.

"I'm delighted to think that we are going to be able to remain as an antonomous company under the same name and following the same paths of development," said Mr Neill yesterday.

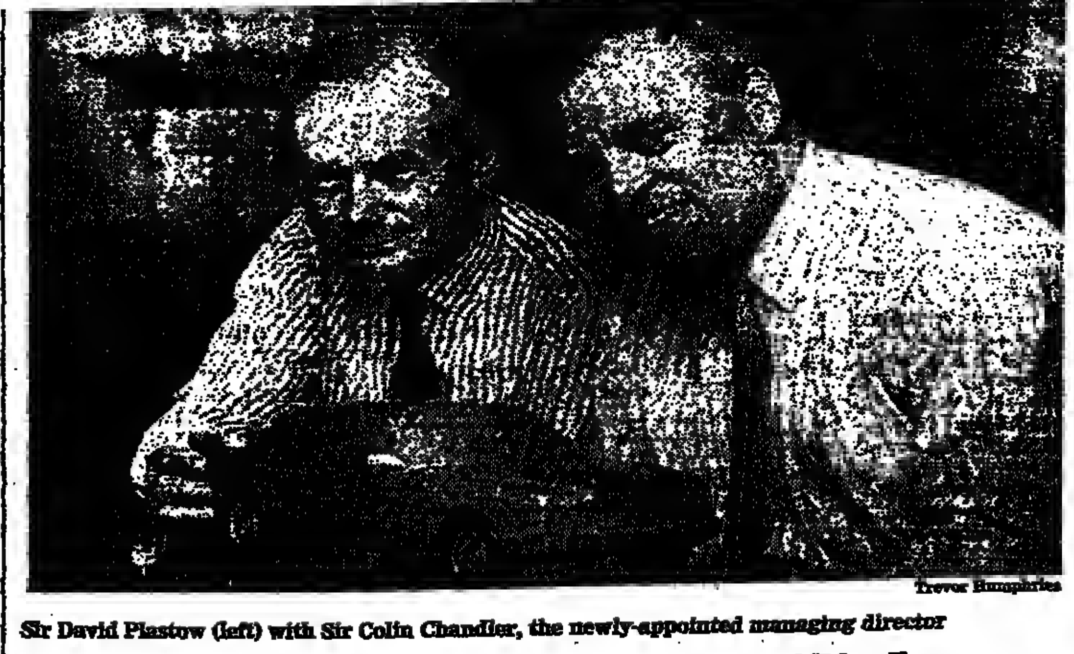
MMG said it would consider refinancing the Neill investment with "a modest level of leveraging" in due course. Initially this would consist of senior debt, followed by the possibility of mezzanine funding.

However, Mr Cohen said the bny-in fund did not aim to carry out highly leveraged, or hostile deals, and had no intention of selling off parts of Neill's business to offset acquisition or interest costs.

MMG Patricof is best known in the UK as the parent of Alan Patricof Associates, a venture capital operation. The group also operates an investment banking arm.

APA has been associated with businesses as diverse as Rotaprint, the manufacturer of printing equipment which it helped buy from the receivers 18 months ago, the Waterstones chain of bookshops – sold to WH Smith earlier this year – and My Kinda Town Group, which owns the Chicago Pizza Pie Factory restaurants.

Ronald Cohen, who is to become chairman of James Neill



Trevor Humphries

Sir David Plastow (left) with Sir Colin Chandler, the newly-appointed managing director

Ex-MoD chief to join Vickers

By David White, Defence Correspondent

SIR DAVID PLASTOW, chairman of Vickers, the engineering, defence and luxury car group made clear yesterday that he intended to keep the chief executive function despite the appointment of Sir Colin Chandler, a former top official at the Ministry of Defence, as managing director.

The appointment of Sir Colin, until recently the head of the MoD's Defence Export Services Organisation, was officially announced yesterday to succeed the current managing director Mr Ron Taylor, who is retiring next April. The company is hoping, however, that Sir Colin will be able to join before then, subject to approval by the Prime Minister's Advisory Committee on Business Appointments.

Sir David said he hoped for a decision by the committee, which would usually insist on an interval between leaving the Ministry and joining the board of a defence company, "in a few weeks."

He said Vickers would probably eventually switch back to having a non-executive chairman and a separate chief executive but added that this was "some years" away.

"I have a few years to go yet," he said. The managing director's role would not change in the interim.

Vickers intended to re-invest its cash mountain of some £250m built up with the sale in May of its Howson Algraphy printing plate business, Sir David said. It was under no immediate pressure, but would probably do so within the next 18 months. Any new investment would be "strictly in support of the existing business," he said.

He denied that Vickers, which makes Rolls-Royce and Bentley cars, was a potential suitor for Jaguar.

Sir David said he was confident that Vickers' Challenger 2 would succeed in winning the MoD contract for a new army tank, worth more than £1bn, when it reached the deadline for its current demonstration phase next September. However, he said that Vickers had not hired Sir Colin Chandler because of his MoD position.

ADT takes 4.2% BAA stake

By Clay Harris

ADT, the electronic security systems and car auctions group, has spent £74m buying a 4.2 per cent stake in BAA, operator of seven airports including Heathrow and Gatwick. After the announcement, BAA shares bucked the weak stock market trend to close up 2p at 337p, after trading as high as 351p.

ADT also disclosed that it had raised its holding in Christies International to 5.7 per cent. Shares in the international auction group closed 7p lower at 310p.

Mr David Hammond, executive vice president, said both investments reflected ADT's view that "the service sector is not valued as high as it should be".

ADT had held shares in BAA for some time but a recent purchase raised the value of the holding to more than 5 per cent of its net assets, requiring disclosure under Stock Exchange rules.

Sir Norman Payne, BAA chairman, said: "We are very pleased with their confidence in the company and welcome them as a major shareholder."

See Lex

Metsec raising £4m to fund further acquisitions

By Andrew Bolger

METSEC, the USM-quoted company with interests in construction building, engineering and electronic products, plans to raise £4.07m by a placing and open offer of 2.1m ordinary shares.

The company intends to use the money raised to expand its metal and steel-rolling plant in the West Midlands and for further acquisitions in the UK, Europe and the US.

The new shares have been placed with investors by Albert E. Sharp, the Birmingham-based stockbroker, at 198p but will not receive the interim dividend of 2.35p for the six months to June 30. They are subject to clawback by existing investors on the basis of one-for-six of the existing shares.

The shares closed at 205p, down 1p.

Meat Trade sends revised circular

By Nikki Tait

MEAT TRADE Suppliers, the sausage casings and butchers' sundries company at the centre of two rival sets of proposals, yesterday sent a revised letter to shareholders, correcting certain "misleading" statements in an earlier circular.

The new letter was required by the Takeover Panel, the UK watchdog on bids and deals.

In it, MTS concedes that if shareholders accept the rival Twigrealm offer, and this is declared unconditional,they will receive 350p fncash.

MTS also says that when it claimed that the injection of property assets under the Alpha Gamma proposals – which the board is recommending – would result in a "return to profitability", this was not a profit forecast but an assessment ofthe pro forma combined position.

It concedes that if the Alpha Gamma scheme is successful the vendors of Alpha Gamma will control between 57 per cent and 65 per cent of MTS.

Twigrealm was also finalising a further document to shareholders.

MTS confirmed the egm had been put back to October 17.

Honeysuckle declines

HONEYSUCKLE, the USM-quoted designer and supplier of ladies' fashion separates, reported a drop of £334,000 in pre-tax profits to £1.62m in the year to May 31.

Turnover for the Leeds-based company fell to £15.5m (£16.77m). Earnings per 2p share emerged at 12.8p (14p) and a proposed final dividend of 3.6p makes an unchanged total of 5.6p.

The company said that in view of the gloomy economic forecasts for the year and lower consumer demand, care had been taken not to overstock.

Indications were that this year would show a return to steady growth.

Walter Lawrence falls to £5m

By Andrew Taylor, Construction Correspondent

PRE-TAX profits of Walter Lawrence, the housebuilder, contractor and builders' merchant, fell by 27 per cent to £5.12m during the six months to the end of June as higher interest rates took their toll on the group's UK housebuilding business. Group turnover rose from £109.12m to £114.9m.

Earnings per share fell from 9.2p to 6p but the interim dividend was maintained at 2p. Sales of houses in the UK fell during the first half by more than a third from 502 to 316. Operating profits from UK housing, however, rose slightly. This was due higher margins reflecting previous house price increases.

Group operating profits overall rose by 10 per cent to £9.06m. Higher borrowing charges due to interest rate rises and a sharp rise in debt to cover housing land purchases accounted for all of the fall in pre-tax profits.

Walter Lawrence said it had spent £30m on land during the first half. It had expected to recoup some of this from house sales but development had slowed as a result of higher mortgage interest rates.

It said its south Californian housing business, by comparison, had produced a very good performance during the first six months of this year.

Several leading British housebuilders, including Wimpey and Barratt, have Californian housebuilding operations which are expected to produce big increases in profits this year.

The other business interests of Walter Lawrence are its contracting division and its Tricom builders' merchant business.

The group said contracting profits had risen in the first half and order books remained strong. It was concerned, however, at the effect the latest rise in interest rates would have on the business.

It said Tricom had enjoyed a good first half but may have difficulty in achieving targets

Millwall applicants go for 6.6m shares

By Clare Pearson

THE OFFER for sale of 5m shares in Millwall Holdings, the parent company of the south London football club which is being floated on the Unlisted Securities Market, has attracted applicants for 6.62m shares.

As a result, allocations of shares in the offer, which accompanied a placing of 20m shares with institutions, have been scaled down.

Applicants for up to 15,000 shares will receive allocations in full but those applying for 20,000 and over will receive 17,000 shares.

There were 2,787 applicants for the shares. Dealings are expected to commence on October 16.

Preparing for a leaner, fitter future in the 1990s

Alan Cane looks at the struggle of NMW Computers to return to profits

FOR Mr Nigel Banister, managing director of NMW Computers, yesterday's interim results must seem a glimmer of light at the end of a particularly long tunnel.

Profit for the first six months of the year at £48,000 is unexciting but taken against last year's loss of £1.3m, it is an indication that the measures the company has taken to cut costs and diversify away from an unhealthy dependence on stock processing are having some effect.

NMW is the country's largest stock processing bureau. It operates three ICL mainframe computers on behalf of its 100 or so stockbroking clients, acting as their "back office" accounting operation.

It has the capacity to process 140,000 bargains a day, built up at substantial expense during the run-up to the Big Bang in London in 1986.

With the number of daily bargains struck in London at present averaging about 25,000 it is easy to see why the company has had to change its direction dramatically.

It is ironic that during most of the bull market following the Big Bang, NMW attracted criticism because its newly-acquired processing capacity had teething troubles and on occasion found it difficult to cope with the quite exceptional processing loads encountered.

In the middle of 1987 bargains peaked at 1.5m processed a month. After the crash volumes fell by 60 per cent.

The immediate reaction, Mr Banister said wearily, was shell-shock. By the beginning of 1988, however, a recovery plan had been put in place.

The basic idea was to return the stock processing operation to profitability through cutting overheads while capitalising on the company's expensively obtained ICL computers and networking equipment and extending its skills to equipment from two other major companies in the UK stock market, International Business Machines (IBM) and Digital Equipment (DEC).

In the process, the company had inevitably to change from narrowly-focussed computer bureaux, to a broadly-based computing services company.

Four divisions were established each with its own particular strength:

●Stockbroking services, the rump of the stock processing business and still the core of the company's activities.

Operating costs were cut by about 30 per cent and staffing reduced by 70.

For the past few years processing has depended on the NMW's "Capital" software. It is moving towards new and advanced processing software called "Asset". Developed over 18 months at e cost of about £660,000m, Asset is essentially a complete redesign of the stock processing database coupled with advanced features like bargain tracking and rolling settlement.

Another development for agency brokers is "Echo", an order ronting system that removes the need for manual intervention in the order processing cycle. Once keyed into a salesman's terminal, the order moves electronically to the dealer and on into checking and settlement without the need for further paper. Echo is still being extended; a risk management module is in preparation. Echo runs on DEC equipment.

●Data services. NMW has one of the most advanced ICL data centres in the country. It is capitalising on this by initiating two complementary services, facilities management, where the company takes responsibility for a client's data processing, and disaster recovery, where clients' are guaranteed the use of spare capacity in the event of their own being incapacitated.

Mr Banister said that the company had secured three facilities management contracts worth a total of £800,000, while Andersen Consulting, the management consultancy arm of Arthur Andersen, was using the data centre as an extension to its own facilities management service.

The Britannia Building Society was the first client for NMW's disaster recovery service, called Fortress.

●Network services. In the build up to Big Bang, NMW installed a substantial packet-switched network, the most efficient way of transmitting data. It is offering its networking skills as a consultancy service.

●Software services. In perhaps its most innovative move, NMW is co-operating with IBM, the world's largest computer manufacturer, in the development of an integrated front and back office market-making system.

The two companies are collaborating to build e £500,000, 20-dealer station system for Winterflood Securities. The project, called Equity, is expected to be completed by early 1990. Between them, the two companie6 will have spent about £600,000 on the system.

When complete, IBM will take responsibility for marketing it to the other 30 or so market-makers in the City.

Mr Banister says the companies eoftware projects are increasingly being completed on time and within budget due to quality assurance and control procedures put in place.

While the potential of NMW's new offerings in software, data services and networking services seems high, they have yet to make much of a contribution

At best, NMW should break even this year. It will be at least 1990 before the effects of its diversification can be measured. But even if the crash was traumatic for the company it has led to a leaner operation, better fitted for the 1990s.

Allied Insurance first interim

Profits of USM-quoted Allied Insurance Brokers Group declined by £20,000 to £267,000 pre-tax for the half year ended June 30. The figure was struck after taking account of a £26,000 rise in exceptional provisions to £51,000.

Although earnings slipped to 4.9p (5.2p) pre-extraordinary items, the directors are paying a first interim dividend of 1p in view of their confidence in the future.

The directors said a reorganisation had been started to reduce and contain expenses and to maximise income.

For the full year they hoped to see a substantial increase in earnings per share and for Allied to have emerged as a highly focused group.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Alexandra Work	int	1.6	Nov 24	1.33	-	3.85
Allied Ins §	int	1†	-	-	-	2.5
Atlas Convert §	int	5	-	3.5	-	10
BM Group	fin	2.4	Dec 1	1.8	4	3
Britannia Secty	fin	1.62†	-	1.35	2.7†	2.25
Dauphin	int	1.5	Nov 24	1.3	-	4
Helene	int	0.61	Dec 31	0.55	-	1.79
Honeysuckle Gp §	fin	3.6	-	3.6	5.6	5.6
Hyman	int	nil	-	0.9	-	1.6
Jones Group	int	3♣	-	3	-	10
L and M	int	3.795	Nov 16	3.3	-	10.35
Lawrence (W)	int	2	Jan 2	2	-	7.5
Lyles (S)	fin	2.25	Jan 2	2	3.75	3.5

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ‡Third market. ♣Irish pence.

NMW returns to profit

By Alan Cane

NMW COMPUTERS, the stock processing bureau based in Nantwich, Cheshire, which reported pre-tax losses of £1.3m for 1988 after its revenues were halved in the wake of the stock market crash, has returned marginally to profit in the first half of the current year.

Pre-tax profits were £48,000 on a turnover of £4.7m in the six months to June 30. In the same period last year, turnover was £5.9m but the company lost £428,000 before tax.

Earnings per share in the first half were 0.1p compared with a loss of 1.7p, bnt NMW decided "in the interests of prudence" not to recommend payment of an interim dividend.

Mr EB Bibby, the chairman, said the market had shown little upturn since the first half of 1988 and the improvement of almost £0.5m in the results had come from cost cutting measures and diversification into new compnting services less closely tied to the volume of stock market bargains.

The second half of the year is, however, traditionally weaker than the first for NMW and analysts expect the company will do well to break even for the full year.

UK COMPANY NEWS

Expanding BM Group surges 79% to £15.8m

By Jane Fuller

BM GROUP, the maker and distributor of construction and other industrial equipment, increased pre-tax profits by 79 per cent to £15.8m for the year to June 30.

The increase from £8.8m came on turnover up 62 per cent to £193.5m (£119.5m). Diluted earnings per share rose 37 per cent to 32.5p (23.8p). The final dividend of 2.4p makes a total of 4p (3p).

Construction and industrial equipment accounted for £106m of turnover and £7.5m of profit. Technologies, or engineered products, and building products each supplied the best part of £40m in sales, but the latter was the more profitable, contributing £4.6m.

Outside these divisions, most interesting was the appearance of Austoft, the Australian company acquired by BM for £14.7m in March. Mr Roger Shute, BM's chairman and chief executive, said that Austoft had 80 per cent of the world market for sugar cane harvesting equipment. As only 20 per cent of the world's sugar was harvested mechanically, there was considerable potential.

With Austoft came a US operation, Mustang, which gave the group a network of 200 distributors in the US and 60 dealers elsewhere in the world.

Mr Shute said that if each of these took just one of the products made by BM's Warwickshire subsidiary Benford, such as dump trucks and concrete mixers, it would increase Benford's sales by about 60 per cent. The increase being budgeted for in the current year is about 25 per cent and it will be quite a test to ensure sound supply.

Benford is a good example of the galvanising effect BM has had on its acquisitions. Mr Shute said that in June 1986 annual turnover was £18m and 555 people were employed. Its latest figures were £40m for annual turnover and 308 for employees. The revamp had also freed manufacturing space to supply the US market.

Mr Shute said BM, which distributes Hitachi excavators in the UK, had followed the Japanese example of first dominating the domestic market and then turning attention overseas.

In the year to June, which also saw the acquisition of SEP, a French maker and distributor of utilities equipment, about 15 per cent of turnover and 9 per cent of profits came from abroad. This year Mr Shute expected the non-UK contribution to be 30 per cent.

The Austoft purchase took gearing to 75 per cent and he stressed that BM had done considerably better than its 30 to 35 per cent target in reducing this to 18.5 per cent.

After the annual meeting on November 24, BM is planning a scrip issue on a one-for-one basis. Mr Shute said this was "for family reasons" because at about £5 each the shares had become too expensive for employees – 10 per cent of whom were shareholders.

● COMMENT

Mr Shute describes BM as "a tortoise" rather than a hare – and we all know how that story ends. It is going for steady growth from strong bases, rather than "chasing booms around the world." For example, from its foothold in France it will in the longer term drive into Spain and Portugal. Diversification away from the UK is essential, even if the outlook is not quite as grim as Mr Shute's likening of current conditions to those of 1979. But then he is probably on the lookout for bargains among companies that run into trouble. Within the UK, BM has only small exposure to the housebuilding slump; much of its construction equipment is for other activities such as road repairs; and industrial applications form an important part of the divisions. Rigorous management, particularly of cash, and conservative projections (Mr Shute is forecasting interest rates at 17 per cent this December) also bolster it against disappointment. Profit forecasts are for at least £22m, giving a prospective multiple of between 11 and 12. Continued strong growth rates make it look well worth it.

Dauphin falls 4% in first six months

Pre-tax profits at Dauphin, the office seating and specialist engineering group, declined by 4 per cent in the half year to the end of June on turnover 30 per cent higher.

Mr Alec Waddicor, chairman, said that the period had seen some major developments and the costs of those had been reflected in the results.

Profits were £1.83m (£1.9m) with turnover of £10.65m (£8.21m). Earnings were 5.46p (6.07p) and the interim dividend is 1.5p (1.3p).

Independent actuarial consultancy appointed to provide valuation

Pearl builds up bid defences

By John Ridding

PEARL GROUP, the life assurance group which is facing a hostile £1.1bn bid from Australian Mutual Provident, an Australian counterpart, has appointed an independent actuarial consultancy to provide a valuation of the company which could provide an important element in its defence strategy.

Tillinghast, which calculated a value for TSB Group's life and pensions operation before its flotation in 1986, is expected to reach a valuation of Pearl based on *"embedded value"* - shareholders' funds and the value of future profit streams from existing business - and goodwill.

Such "appraisal values" do not necessarily imply a higher valuation for life assurance companies but in the case of Pearl, most analysts estimate that the figure is likely to be in excess of 630p per share, compared with AMP's offer price of 605p. Some calculations are in excess of 700p.

But such valuations are an imprecise science and the measurement of goodwill, which includes a valuation of the company's sales force and ability to win future business is *particularly subjective.*

A spokesman for AMP said that "there is a very wide range of estimates and all of *the calculations* are sensitive to the assumptions used."

According to Mr Youssef Zial, assurance analyst at UBS Phillips & Drew, life assurance companies have tended historically to be undervalued because of inadequate information and the difficulty of calculating appraisal values.

Mr Einion Holland, Pearl's chairman, declined to give details of Pearl's own appraisal valuations but said that whereas shares in life assurance companies are typically valued on earnings in a particular year they should also incorporate the value of the change in business on the books during the year, which better reflects future profit streams.

Mr Holland also said that it was "very unlikely" that Pearl would seek to attain mutual status as part of its defence. He said that this would deprive the group of an important capital source and that it would reduce accountability.

Analysts believe that AMP's offer of 605p is an opening shot and Pearl's shares, which yesterday closed down 1p at 647p, suggest the market is expecting an improved bid.

Credit facilities outlined in AMP's offer document and an injection of £430m into AMP UK, the vehicle for the bid, provides financing of £955m. Given that AMP already holds 18 per cent of Pearl's shares this implies ready finance of 645p per share, even without recourse to further funds from the Australian parent company.

However, AMP said yesterday that after taking into account Pearl's share option schemes and expenses relating to the bid the gap between the bid price and available resources is reduced to about £20m and this is necessary to meet working capital requirements.

Britannia Security declines to £9.6m

By Andrew Bolger

BRITANNIA Security Group, the business services and alarm installation company, yesterday announced a 4.4 per cent drop in pre-tax profits to £9.6m in the year to June 30.

Britannia, which issued a profits warning last month, partly blamed the results on increased borrowing and higher interest rates. Although turnover increased by 41 per cent to £87.4m, interest payable almost trebled to £4.86m (£1.64m).

Mr Anthony Record, chairman, said the year had been difficult but the management and financial resources expended on refocusing the group on its core security business would enable it to resume the growth pattern achieved in previous years.

The sale of the UK data management division brought an extraordinary profit of £4.84m, but there was also a loss of £1.05m on the sale of investment stakes. The net credit of £3.79m helped to lift attributable profit to £11.99m (£7.92m).

In business services, major oil company clients were lost as they relocated their records to the US. The delay in completing the disposal of the UK data management division also had a negative effect on the business. In the US, Leahy Business Archives suffered from an unusually high level of destruction of obsolete records by customers.

Underperformance by both Sentrymatic Britannic entryphones and Britannia Fire's fire alarms, part of the integrated systems division, also contributed to the lack of profits growth.

One potential bright spot amid the gloom was Actron, its Swiss-based electronic article surveillance business, which has produced a hands-free deactivator for adhesive security labels which simultaneously reads bar code price labels.

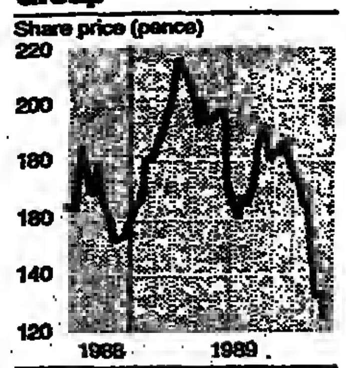
Actron experienced considerable delays in developing the product and had difficulties with electronic interference at some sites. It now says these problems have been overcome and Britannia has expanded its distribution network to enable it to sell this system throughout Europe.

Earnings per share fell to 11.65p (13.66p). A final dividend of 1.62 (1.35p) was proposed, making 2.70p (2.25p) for the year.

● COMMENT

The alarm bells which Britannia set ringing last month were more than justified by these results. One jaundiced analyst remarked that extraordinary items seemed to be the company's most profitable division, and another complained that the meagre profits figure was inflated by the capitalisation of £1.1m of Actron's R&D costs. The core burglar alarm business seems healthy and battered investors who have seen their shares plunge in value may hope the worst is behind them and that something – preferably a bid – will turn up. Profit forecasts go as low as £11m, with earnings put at 11p to 12p. The shares closed down 8p at 125p, which puts them on a prospective multiple of 10 to 11. That does not seem too harsh, given the high gearing and the grim outlook for interest rates.

Britannia Security Group



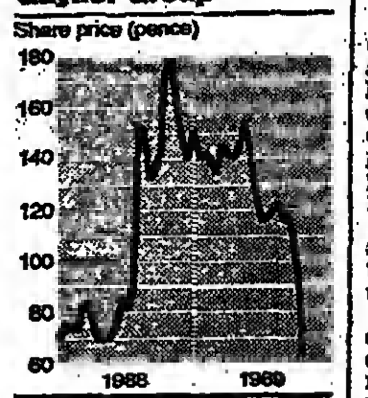
Gaynor downgrades its expected profits again

By Clay Harris

GAYNOR GROUP, a maker of carrier bags and other plastic packaging for clothing retailers, yesterday issued its second profits warning in four months, saying its results for the year which ended on August 31 would be "significantly below expectations". The shares closed 32p lower at 62p.

ANZ McCaughan, the stockbroker, *now expects the USM-listed company to report pre-tax profits of only £100,000 to £150,000, against its previous estimate of £300,000. Even the latter figure was less than half* the £681,000 achieved by Gaynor in 1987-88 on turnover of £7.41m.

Gaynor Group



The latest setback will increase speculation over the future of the Manchester-based company, which has been controlled since last year by the Scowcroft family, which also owns the Swinton Insurance group.

At yesterday's closing price, the Scowcrofts are showing a loss of £1.3m on their investment at 120p a share, made as part of a general offer for the company.

Mr Glyn Jones, Swinton's corporate development director and a member of the Gaynor board, said the family remained absolutely committed to its intention to use Gaynor as a vehicle for expansion within printing and packaging and perhaps subsequently into other areas.

Nearly all of Gaynor's production goes to clothing retailers. In addition to carrier bags, it also makes polypropylene film used in packaging underwear and other garments.

Apart from the troubles in the retail sector, Gaynor's financial plight has been aggravated by *higher interest* rates. *It* is 60 per cent geared and totally exposed to floating rates, Mr Warren Ferster, managing *director,* said *yesterday.*

Moreover, Gaynor will make an unspecified write-off against stocks because of a fall in raw material prices. *It is* trying to diversify into the supplying the less cyclical food market and investigating ways of shortening its production runs to minimise the volume of bags it has to store until delivery is ordered by customers.

In principle, Gaynor could be attractive to larger companies in the sector such as Scott & Robertson or Bowater Industries, *although they are* digesting their recent respective acquisitions of Alida Holdings and Viking Packaging. Moreover, they are unlikely to be willing to pay high enough a price to enable the Scowcrofts to break even.

Hyman setback hits shares

SHARES IN Hyman plunged 8p to 19p yesterday after the furniture foam and frozen food group disclosed a 78 per cent fall in pre-tax profits to £286,536 for the six months to June 30 and said it would not pay an interim dividend, writes Clay Harris.

Mr John Curtis, finance director, said UK foam operations had lost money in the first half, but the French business, Francel Group, bought in July 1989, and the food division, which sells frozen meat *products* under the Steak Express brand, were both profitable in the first half.

Hyman is making significant property disposals in the second half to reduce its interest costs, which more than trebled to £919,886 (£286,344) in the first six months.

The slowdown in furniture sales has prompted Hyman to reduce UK jobs by 10 per cent, Mr Curtis said. The poor retail climate meant that Hyman had yet to reap the full benefit of its investment in Hyguard, a flame-retardant *foam,* he added.

Moreover, the use of chlorofluorocarbons (CFCs) *in* foam manufacture had been banned in the UK shortly after Hyman had perfected a machine to recycle the gases. It was still being sold overseas, however.

The catering products division supplies the sausages and hamburgers sold at Blackpool Tower, should any Conservative ministers feel peckish and *in need of a stroll* this week. However, the company itself is counting the cost of the decline *in* sterling against the D-Mark, the currency in which many of its raw materials are are priced.

But higher costs in this case are expected to be balanced, and perhaps outweighed, by the boost to translated profits if sterling also declines against the French franc.

The pre-tax decline from £1.29m came despite a 53 per cent advance in turnover to £31.3m (£20.5m). Operating profits dropped by 23 per cent to £1.21m (£1.57m).

Earnings per share fell to 0.28p (1.65p). The interim dividend in 1988 was 0.9p, followed by an identical final.

NEWS DIGEST

Helene ahead 56% to £1.63m

ORGANIC GROWTH and the *acquisitions of* 1987 and 1988 helped Helene, textile merchant and manufacturer and distributor of clothing, to a 56 per cent *increase in pre-tax* profits for the first half of 1989.

On turnover 54 per cent ahead to £26.91m (£17.42m) the taxable result rose from £1.05m to £1.63m.

Mr Montague Burkeman, chairman and joint managing director, said the company had not been affected by the reported downturn in the retail sector.

Furthermore, the current level of orders remained buoyant and he was confident of excellent progress for the year as a whole.

Earnings per 10p share worked through at 1.8p (1.3p) and the interim dividend is lifted to 0.61p (0.55p).

Sherwood Computer sells lossmaker

Sherwood Computer Services, *USM-quoted computer services* supplier, has sold Sherwood Mitronix, its motor insurance subsidiary, to Policymaster. Initial consideration was £150,000 in cash.

The final consideration will be determined by reference to the net worth of the company at completion with a maximum payment of £300,000. In the year to December 31 1988 Mitronix incurred net losses of £920,000 and at that date had net liabilities of £1.8m.

UK COMPANY NEWS

A powerful player in a tough market

Alice Rawsthorn *on the flotation plans of CIA Media Communications*

THE ORIGINS of the CIA Media Communications Group are far from auspicious. It traces its roots to 1976 when two men rented a room in Covent Garden and booked newspaper space for advertisements adjuring people to "Learn to play the guitar".

The company still books newspaper space for guitar courses. But it also handles the media buying for blue chip groups like British Telecom and Commercial Union.

The CIA of today is the second largest specialist media-buying business in the UK and is now finalising plans for a USM flotation later this month.

CIA is one of the new wave of companies – the media independents – which specialise in buying television time and newspaper space for advertising campaigns. Traditionally, media buying was conducted by advertising agencies. But in the 1970s and early 1980s a number of media-buying executives broke away from the established agencies to start their own specialist businesses. Mr Chris Ingram, who founded CIA and is now its chairman, was among them.

In the early days the media independents were seen – not least by the advertising establishment – as a raffish bunch. But the concept of separating media buying from other areas of advertising is now widely accepted and the media independents are an established part of the advertising industry.

The independents now account for a fifth of all the media bought in the UK. The specialist media subsidiaries of mainstream agencies – such as Zenith, the centralised media-buying operation set up by Saatchi & Saatchi a year ago – account for another fifth.

Moreover, the European media specialists have started to invest in the UK as part of their international expansion. Carat of France is now a sizeable shareholder in TMD Advertising, the only publicly quoted UK media independent, and has joined forces with the WCRS marketing group.

The combination of increased competition and incipient internationalism has created a climate in which critical mass is increasingly important. In the long term the formation of large media forces like Zenith is bound to put pressure on profitability. The overheads of media buying are also escalating as the television and publishing industries become more complex.

Chris Ingram – new business will cushion any slowdown

This means that the companies will need to exploit economies of scale in order to boost profits. The likeliest scenario for the future is that media buying will be dominated by a small number of large international groups which will become increasingly powerful. This will be at the expense of the smaller companies.

CIA is already a powerful player in the UK media-buying business. Last year it increased pre-tax profits by 46 per cent to £862,000 on turnover which rose by 42 per cent to £54.16m.

The group has a string of subsidiaries involved in areas like international media and sponsorship. This summer it bought Billett & Company, another British media independent, thereby boosting its annualised billings to around £200m.

CIA is now intent on international expansion. It already has a joint venture with Idémédia of France and a network of international affiliates. But Mr Ingram believes that it needs its own network to remain competitive.

Over the next three or four years the group intends to stage a series of acquisitions to establish a presence in Europe and the US. The USM flotation will enable it to fund its expansion.

CIA plans to go public – through a placing by Kleinwort Grieveson – within the next few weeks. It will be capitalised at about £10m and will place up to 25 per cent of its equity. About half the money raised will go to the company.

The timing of the flotation is far from propitious. The gloomy outlook for the UK advertising industry – together with the uncertainty over the future of Saatchi and WCRS – has depressed the marketing services sector on the stock market.

CIA is, according to Mr Brian Sturgess, marketing analyst at Barclays de Zoete Wedd, "a good company going public in a tough market".

Mr Ingram is unabashed. He admits that competition is intensifying, but says CIA has already won enough new business this year to cushion it against a slowdown.

And this is the message he will be hammering home to the institutions as he does the rounds of the City.

Retail side helps Alexandra to £3.7m

A "PLEASING" performance by its retail shops helped Alexandra Workwear advance 19 per cent in the 28 weeks to August 12. During the period a combined sales office and shop in Paris, two UK shops and the London Business Wear Centre, became fully operational.

Turnover was £31.02m (£26.27m), an increase of 18 per cent, for pre-tax profits of £3.7m (£3.12m).

Mr John Prior, chairman and chief executive of Europe's largest maker of workwear, said that the strategy of retail expansion was being continued with three units planned to open in the present period.

He added that the effects of the developing economic uncertainty and the hot weather had been minimised by the company's extensive product range.

Earnings per share came out at 7.31p (6.11p) and the interim dividend is being increased from 1.53p to 1.6p.

The pre-tax figure was struck after a net interest charge of £320,000 (£238,000). Tax took £1.26m (£1.08m).

S Lyles acts to combat sales dip and holds profit

By Peter Franklin

IN SPITE of the much-publicised downturn in consumer spending, S Lyles, the Dewsbury-based carpet yarn spinner and dyer, yesterday reported a slight improvement in pre-tax profits from £1.03m to £1.04m for the year to end-June.

Mr John Lyles, the chairman, said that by concentrating its efforts on improving export volumes and contract business the company had largely been able to offset falling sales in the domestic retail market.

Exports now totalled some 50 per cent of output, while of the home market about 65 per cent was accounted for by contract sales for hotels and offices. Many of its contract customers were doing work in continental Europe and this had further insulated the company from the difficult conditions in the UK.

Group turnover increased from £20.96m to £21.47m and comprised UK sales of £13.17m (£12.89m) and export revenue of £8.3m (£8.07m).

Great efforts had been made to improve margins, said Mr Lyle, and the workforce had been reduced by 35 as part of a streamlining operation. An exceptional item of £91,000 represents the costs of the redundancies.

The interest charge increased to £216,000 (£103,000) on borrowings up from £1m to £1.6m. However, these were expected to fall back to around £1.3m by the end of next year.

Some new export developments were now in production which the chairman said held promise for the future and the company had applied for British Standard registration, which would further strengthen its position in the trade, he said.

Earnings increased to 9.45p (8.55p) and a recommended final dividend of 2.25p makes a total for the year of 3.75p (3.5p). Lyles shares closed unchanged on the day at 68p.

L and M lifts interim 15% and expects same for full year

By Eric Short

LONDON AND Manchester Group, the Exeter-based life and financial services company, is raising its interim dividend by 15 per cent from 3.3p to 3.795p.

This increase, in line with market expectations, foreshadows what is likely to happen at the full year. But it does not reflect the anticipated nil profit growth expected in 1989.

The group's mainstream life and pensions business showed steady growth over the first half of the year, with new annual premiums up 11 per cent and single premiums up 18 per cent.

The group is now reaping the benefits of expanding its appointed representative network, where it has now tied 540 firms. And it fully participated in the personal pensions boom in the first few months of this year with growth of some 50 per cent.

However, profits from this year's new life and pensions business will not come through until next year or the year after.

Profits growth from the current life and pensions portfolio, revealed after the end-year valuation by the actuary, will be absorbed by the group's moves in the mortgage and the estate agency markets.

The group would appear to be weathering the current slump in the residential housing market better than most.

Although the level of new residential mortgage advances has fallen by some 45 per cent, the loan portfolio still showed a 3 per cent growth over the half-year to £258m.

The introduction of fixed-rate and low-start mortgage schemes has resulted in a rise in new applications.

There has also been a spin-off effect on new life business with sales of mortgage related products showing strong growth.

The dull residential estate agency operation has to a large extent been offset by a particularly buoyant commercial property market.

Nevertheless, losses on the mortgage and estate agency business profits will eat into the life profits and minimal growth can be looked for this year.

However, the eternal prospect of a predator puts pressure on the group to maintain strong dividend growth and 15 per cent can be expected for 1989.

The share price fall of 7p to 307p reflects not only the general market fall but uncertainties over the future.

COMPANY NEWS IN BRIEF

AMERSHAM INTERNATIONAL has agreed terms for the purchase of London Analytical and Bacteriological Media, of Bury, Lancashire, for £1.5m cash. The move represents Amersham's first commercial entry into the industrial microbiology market. To help finance its acquisitions programme the company has arranged the sale and leaseback of its head office for £13m. The annual rent will be some £1m.

BETT BROTHERS is to cease operations of its commercial vehicles subsidiary, Bett Trucks, with effect from November 30 1989.

CARBO has acquired Modern Injection Moulds and Technical and Electronic Plastic Mouldings for a total consideration of £1.65m cash.

COATS VIYELLA has acquired two Ohio-based companies, Flexmag Industries and Magnets, whose operations are being merged.

FKI has acquired Magnetic Components for a total consideration of £1.73m. Berwith International, part of FKI's north American hardware division, has signed an exclusive contract with K-Mart, the second largest retail chain in the US, to supply it with furniture hardware.

IN SHOPS (space management specialist), has completed the purchase of 75,000 sq ft of freehold premises in Spring Road, Hall Green, Birmingham. Consideration was £1m in cash.

LOOKERS recent rights issue of 6,386,186 8 per cent convertible cumulative redeemable preference of £1 each was taken up in respect of 3,546,926 (55.54 per cent). The balance has been taken up by the sub-underwriters at the fully paid price of 100p per share.

MERGER CLEARANCES: The following will not be referred to the Monopolies and Mergers Commission: The proposed acquisition by MB Group of ABS Holdings; the acquisition by Stagecoach (Holdings) of Ribble Motor Services; and the transfer of the Rothwell Advertiser Press to United Provincial Newspapers.

POLLY PECK Far East (the Hong Kong unit of Polly Peck International): Trading in its stocks was suspended at the company's request.

SINGAPORE PARA Rubber Estates pre-tax profits fell from £212,000 to £148,000. Turnover was £381,000 (£441,000). After tax of £84,000 (£102,000) earnings per share were 0.81p (1.05p).

SUTER: On October 4 the company purchased 250,000 of its own ordinary shares at 200p, bringing its cumulative purchases since authority was given by shareholders to 10.01m.

XTRA-VISION, which came to the USM in April, has acquired Variety Video, a chain of four video shops in Middlesex, for £580,000.

SHARE STAKES

British Mohair: Lawrie Group has increased its holding to 3.61m ordinary (27.19 per cent) with the acquisition of 45,000.

Casket: York Trust has acquired, on behalf of other parties, 285,000 ordinary to lift its total to 6.86m (18.2 per cent).

Colorvision: Edinburgh Fund Managers has bought 515,000 ordinary from three directors for 135p per share. Mr Neville Michaelson has sold 200,000, reducing his holding to 3.78m (48.67 per cent), Mr Bernard Michaelson has sold 294,000, reducing his holding to 4.08m (30.53 per cent), and Mr Nigel Elton has sold 20,700, reducing his holding to 610,740 (3.04 per cent).

Dalgety: Carisbrook Holdings (UK) has transferred 12.2m (5.5 per cent) shares to Como International. Como is 50 per cent owned by Carisbrook and 50 per cent by subsidiaries of Société Nationale Elf Aquitaine. Carisbrook's ultimate owner is Mr Robert Holmes à Court.

Delaney Group: Mr NR Puri, chairman of Melton Medes and non-executive director of Delaney, has sold 40,000 ordinary at 70p per share. Melton Medes' interest continues to be 29.62 per cent.

Five Oaks Investments: Govett Strategic Investment Trust has lifted it holding to 11.45m ordinary (24.3 per cent) with the purchase of 204,371. London Securities has bought 3.46m, bringing its holding to 6.41m (13.59 per cent).

Hambro Countrywide: Hambros has acquired 14.82m at 38p per share, bringing its holding to 168.55m (51.65 per cent). Guardian Royal Exchange has also acquired 14.82m at the same price, lifting its holding to 70.27m (21.52 per cent).

Hanover Druce: SA Goldstein has acquired 25,000 shares at 120p, raising the total holding to 433,035 (7.03 per cent).

International Communication and Data: Mr DZ Unger, a director, has disposed of 75,000 ordinary leaving his holding at 812,153 shares (4.89 per cent).

Medminster: Robert Fleming & Co has bought 766,960 ordinary (9.99 per cent). Also Mr HR Moszkowicz has increased his holding to 775,000 shares (10.09 per cent).

Normans Group: PS Allen has acquired 10,000 5 per cent cumulative preference shares, raising the total holding to 32,980 (31.4 per cent).

Personal Assets Trust: Mr JG Gammell, chairman, has bought 5,000 ordinary, lifting his holding to 6.33 per cent.

Polly Peck: Mr Asil Nadir, chairman, on September 7 irrevocably undertook that 14.06m new ordinary (50 per cent of the total entitlement under the rights issue in respect of the shares in which he is interested) would be taken up. On September 28 Mr Nadir further irrevocably undertook that the remainder of such entitlement under the rights issue would also be taken up. Consequently, rights entitlements in which Mr Nadir is interested will be taken up in full.

Reed Executive: La Société Anonyme Ecco Travail Temporaire now owns 3.93m (7.62 per cent).

Rowe Evans Investments: CDFC Trust has recently acquired a further 1.5m shares making a total of 4.07m ordinary (10.2 per cent).

Sainsbury (J): Mr Simon Sainsbury has reduced his interest from 10 to 7.58 per cent.

Atlas Converting profits 49% ahead at £2.19m

Atlas Converting Equipment, USM-quoted maker of slitting and rewinding machines, vacuum metallisers and furnaces, lifted pre-tax profits by 49 per cent to £2.19m in the six months to June 30 compared with a previous £1.46m.

Turnover rose 43 per cent to £13.08m (£9.13m) and Mr C Rogers, the chairman, said that orders were on hand to meet planned output for the year.

The new management at General Vacuum was beginning to result in an improved order position, he said, but due to the long lead time from order to completion, the company was not expecting the benefit to show through until 1990.

Earnings per share emerged at 17.5p (11.7p) and the interim dividend is increased to 5p (3.5p).

First Technology reduces its holding in Ricardo

By Nikki Tait

FIRST TECHNOLOGY has sold 25,000 shares in Ricardo Group, the Sussex-based engines and transmissions designer, for which it mounted an unsuccessful £23m bid earlier this year, cutting its holding from a little more than 15 per cent to 14.48 per cent.

Yesterday, Dr Fred Westlake, First Technology's chief executive, explained the sale by saying that it was "designed to test the share price strength" of Ricardo. He added that there could also be advantages in having a stake below the 15 per cent level.

But he was quick to stress that nothing should be read into that statement and that "all options are still open". The shares, he said, were sold at the ruling market price, somewhere around the 155p-158p mark.

Ricardo said that it was mystified by the sale.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

TODAY

Interims- Anglo-Eastern Plantations, Austin Reed, [illegible], Finsbury Oil & Gas, Forward Technology, Jerome (S), [illegible].

Finals- AMI Healthcare, Lloyds Chemists, Pochins, Sinclair (William), Tay Homes.

FUTURE DATES

[illegible]

FT-ACTUARIES SHARE INDICES - QUARTERLY VALUATION

The market capitalisation of the groups and sub-sections of the FT-Actuaries indices as at September 29, 1989 are expressed below in millions of pounds and as a percentage of the All-Share Index. Similar figures are also provided for the two preceding quarters.

	EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses denote number of stocks)		Market capitalisation as at Sep.29, 1989 (£m.)	% of all share index	Market capitalisation as at Jun.30, 1989 (£m.)	% of all share index	Market capitalisation as at Mar.31, 1989 (£m.)	% of all share index
1	CAPITAL GOODS GROUP	(208)	81,236.1	17.93	82,103.3	19.19	81,484.5	19.63
2	Building materials	(29)	14,727.3	3.25	15,175.1	3.55	15,373.5	3.70
3	Contracting, Construction	(37)	7,195.7	1.59	7,326.7	1.71	8,034.4	1.93
4	Electricals	(16)	3,816.6	0.84	3,281.5	0.77	3,481.3	0.84
5	Electronics	(30)	15,506.9	3.42	18,185.2	4.25	17,422.7	4.20
6	Mechanical Engineering	(54)	14,300.9	3.16	14,689.3	3.43	13,930.8	3.36
8	Metals and Metal Forming	(6)	4,340.1	0.96	4,381.8	1.02	4,883.2	1.18
9	Motors	(19)	7,208.7	1.59	5,938.0	1.39	5,608.4	1.35
10	Other Industrial Materials	(23)	14,139.9	3.12	13,125.7	3.07	12,750.2	3.07
21	CONSUMER GROUP	(180)	141,627.2	31.26	129,885.9	30.35	124,405.1	29.98
22	Brewers and Distillers	(22)	23,269.0	5.13	21,129.3	4.94	20,105.7	4.84
25	Food Manufacturing	(20)	20,548.9	4.54	19,299.4	4.51	17,804.4	4.29
26	Food Retailing	(14)	14,248.9	3.14	15,054.2	3.52	12,856.4	3.10
27	Health and Household Products	(14)	30,270.1	6.68	24,375.6	5.69	23,899.3	5.76
29	Leisure	(34)	15,991.0	3.53	14,466.3	3.38	14,239.4	3.43
31	Packaging and Paper	(15)	3,106.3	0.69	2,911.0	0.68	4,089.7	0.99
32	Publishing and Printing	(19)	9,278.4	2.05	8,621.5	2.01	8,915.5	2.15
34	Stores	(32)	20,949.4	4.62	20,235.5	4.73	18,850.0	4.54
35	Textiles	(14)	3,965.2	0.88	3,793.3	0.89	3,642.7	0.88
40	OTHER GROUPS	(93)	89,554.7	19.77	84,273.1	19.69	79,842.1	19.24
41	Agencies	(17)	7,190.7	1.59	6,310.8	1.47	5,194.8	1.25
42	Chemicals	(22)	15,240.4	3.36	15,361.2	3.59	14,538.7	3.50
43	Conglomerates	(13)	15,982.2	3.53	15,720.4	3.67	13,744.0	3.31
45	Transport	(13)	10,410.3	2.30	10,655.3	2.49	10,324.0	2.49
47	Telephone Networks	(2)	22,113.9	4.88	20,417.8	4.77	21,566.7	5.20
48	Miscellaneous	(26)	18,617.2	4.11	15,817.6	3.70	14,473.9	3.49
49	INDUSTRIAL GROUP	(485)	312,418.0	68.96	296,262.3	69.23	285,729.7	68.85
51	Oil and Gas	(15)	47,289.4	10.44	45,696.3	10.68	42,210.4	10.18
59	500 SHARE INDEX		359,707.4	79.40	341,958.6	79.91	327,940.1	79.03
61	FINANCIAL GROUP	(121)	67,991.1	15.01	60,303.1	14.09	62,011.2	14.94
62	Banks	(9)	24,138.2	5.33	19,382.1	4.53	19,750.2	4.76
65	Insurance (Life)	(8)	8,147.6	1.80	6,976.2	1.63	7,318.3	1.76
66	Insurance (Composite)	(7)	10,993.2	2.42	9,425.0	2.20	9,877.8	2.38
67	Insurance Brokers	(7)	1,889.6	0.42	1,798.8	0.42	1,792.9	0.43
68	Merchant Banks	(10)	2,996.3	0.66	2,613.3	0.61	2,625.0	0.63
69	Property	(49)	14,982.9	3.31	15,315.0	3.58	15,768.7	3.80
70	Other Financial	(31)	4,849.3	1.07	4,792.7	1.12	4,878.3	1.18
71	Investment Trusts	(69)	15,046.1	3.32	13,745.1	3.21	13,411.5	3.23
81	Mining Finance	(1)	5,244.1	1.16	7,571.2	1.77	6,981.5	1.68
91	Overseas Traders	(8)	5,011.4	1.11	4,363.2	1.02	4,636.9	1.12
99	ALL-SHARE INDEX	(699)	452,999.1	100.0	427,941.2	100.0	414,981.2	100.0

Supply disruptions seen pushing copper to record

By Kenneth Gooding, Mining Correspondent

A WARNING that the price of copper is destined to touch new records in the coming months has been given by the metals team at W.I. Carr, part of the Banque Indosuez financial group.

Copper prices on the London Metal Exchange for immediate delivery climbed by another £28 yesterday to £1,896.50 a tonne – the highest level for a month.

Until recently traders in London seemed to be ignoring the implications of the widespread disruptions to copper supplies because there appeared to be no shortage of metal in Europe at the moment. The main impact has been felt in Japan.

Carr's team expects production problems to cost the output of 400,000 tonnes of copper this year. Consequently, non-communist world mine production will be 6.85m tonnes in 1989, only 1.5 per cent up on 1988 and well below the 7.25m tonnes projected at the beginning of this year. Total refined output should reach 8.15m tonnes.

Copper consumption is forecast to reach 8.45m tonnes, which implies a shortfall of 300,000 tonnes of refined metal. Imports should take care of 130,000 tonnes of the shortfall, leaving 170,000 to be met from stocks.

"The copper market could well enter 1990 with stocks at or below 500,000 tonnes, equivalent to the critical minimum level of three weeks' consumption," Carr says.

"The last time inventories fell to critical levels, in October and November, 1988, the copper price peaked at £1.60 a lb," it points out.

Carr suggests the copper market's problems are likely to be exacerbated at the end of December when the New York *Commodity Exchange (Comex)* replaces its standard grade contract with a new high grade one.

"Since just 1,700 tonnes of high grade stocks are currently held in Comex warehouses, the US market is likely to be extremely tight in the first quarter of 1990."

Japanese inventories, meanwhile, currently are just 25,000 tonnes, equivalent to only one week's average consumption. Carr says: "Should any further supply disruptions manifest themselves a scramble for metal could well ensue."

In any event, Carr suggests the copper price will remain highly volatile, with price "spikes" up to the $1.80-$2 a lb range.

EC under attack on set-aside

By Bridget Bloom, Agriculture Correspondent

THE EUROPEAN Community's decision to pay its farmers to remove land from arable production was taken for the wrong reasons, without prior analysis and without assurance that the scheme can be adequately implemented and policed, according to a new study.

Professor Michael Tracy, author of Government and Agriculture in Western Europe*, just published in a third and considerably expanded version, says the way in which the EC introduced the so-called set aside scheme "is a sad comment on the inadequacy of (its) policy making process." The scheme, introduced last year, allows farmers to be paid up to £200 a hectare for taking at least 20 per cent of their arable land out of production for five years.

Mr Tracy notes that even the scheme's origins were confused. Set-aside was urged on the EC by Britain, which hoped that it would cut the amount spent on storing unwanted cereals while helping to relieve pressure on more marginal farmers from an increasingly market-oriented pricing policy.

However, the German Government "latched onto the idea" not as a complement to a market-oriented policy but as an alternative to it – "if land retirement could avoid surplus production there would be no need to cut prices."

The EC Commission, initially unenthusiastic, did virtually no analysis of the potential effects before the scheme was adopted, while the basic lesson of the US experience was ignored, Mr Tracy says.

The US lesson was that set-aside was effective because farmers who wanted price support (via deficiency payments) had to set some land aside.

Mr Tracy's analysis includes a useful historical survey of European agricultural protectionism as well as cogent chapters on the origins of the common agricultural policy. It concludes with the thought that the CAP itself has aggravated many of the problems of agricultural maladjustment which it sought to address.

In particular, the "promises of the politicians" on the CAP remain unfulfilled, for it has not particularly benefitted its main clients, the farmers themselves, Mr Tracy says. For while some farmers, who were quite well endowed to start with, have done well, "many small and less well educated farmers have been left behind, bewildered by the complexities of the support mechanisms."

This generally poor record of achievement reflects the inefficiencies of the EC's policy-making processes, which include the "latitude left by most government's to their agriculture ministers and the tendency of many of these to curry favour with the farming electorate while neglecting the broader interest. The Commission has also been at fault, being too ready to acquiesce in compromise rather than hold firm to its proposals.

● The 1990 edition of Farm Management Pocket Book, the invaluable guide to UK farming business, is now available from Wye College, Department of Agricultural Economics, Kent, at a price in the UK of £4.80.

**Harvester-Wheatsheaf. London, New York Tokyo, £12.95.*

Producers to call for jute buffer stock

By Reazuddin Ahmed in Dhaka

JUTE PRODUCING countries will call for the creation of a buffer stock to stabilise prices and supplies of the fibre in Geneva at the end of this month.

The call, by Bangladesh, India, Thailand and China, will be made at a week long conference being held under the aegis of the United Nations Committee on Trade and Development (Unctad) to renegotiate the International Agreement on Jute and Jute Products.

Until now the International Jute Organisation, which administers the agreement, has lacked the funds to operate a buffer stocks system. But members believe this problem could be solved with help from the United Nations Common Fund for Commodities, which came into effect this year.

The International Jute Agreement was negotiated in 1982 and was brought into effect in 1984. It was extended for another two years in 1987.

According to IJO officials proposals for the new pact are likely also to include greater stress being placed on the environmental attractions of jute in an increasingly "green" world. The fibre is used principally for sacking and carpet-backing, in both of which applications its main rivals are oil-based synthetics.

In the absence of economic clauses the organisation operates as a forum for producers and consumers to discuss ways to ensure reliable supplies of the material at adequate prices. Both sides had previously experienced problems because of fluctuations in supply and resulting volatility of prices.

Bangladesh, the biggest producer, has been facing production shortfalls because of floods, which last year cut the crop by 10 per cent. This year prospects are not very good as the country suffered a severe drought during the sowing period. Production is expected to reach 4m bales, leaving only 1.6m bales for export in raw form after the domestic jute industry's requirements of 3.4m bales are met and 1m bales is carried over from last year's crop. The world market for raw jute is about 2.4m bales, of which Bangladesh normally supplies about 2m.

This shortfall in supply is likely to affect the price of the commodity in the international market and consuming countries will bargain hard in Geneva to negotiate a stable price for the commodity.

Bangladesh and India, the second biggest producer, are discussing common strategy to be adopted at the conference.

Elegant compromise on fish case

Tim Dickson on a setback in the fight against "quota-hopping"

THE EUROPEAN Court ruling yesterday against Britain's attempt to outlaw "quota hopping" by Spanish fishermen is embarrassing for the Government but may not be too damaging for the UK fleet.

It ordered the UK to suspend a section of its merchant shipping legislation restricting registration of fishing vessels in Britain to British citizens or to companies three-quarters owned by British citizens. Demonstrating its traditional flair for elegant compromise, however, the court did not rule against a requirement that vessel owners be resident and domiciled in the UK.

The issue behind yesterday's important legal development is nothing less than the future of the EC's Common Fisheries Policy, or more specifically the system of fishing quotas under which annual catch allocations for each fish species are awarded to the member states.

The pressures on this management system – caused by the fundamental mismatch of declining fish stocks in Community waters with the oversized EC fleet – have been dramatically illustrated in the last couple of years by the row over "quota hopping" – the practice by mainly Spanish vessels of registering as British (and in some cases Irish) boats in order to qualify for the UK's national quotas.

Britain's attempt to stop them doing so by introducing new restrictions in the 1988 Merchant Shipping Act – a move highly popular with the hard-pressed English and Scottish fleets – was essentially what led to yesterday's order from the European Court.

The "offending" section 14 of the Act has already been challenged under the British legal system by a group of largely Spanish boat owners representing almost 100 vessels excluded by the new rules.

Much to the dismay of the British Government, their case was dramatically upheld by a UK divisional court in March this year, overturned on appeal, and subsequently referred to the European Court in Luxembourg by the House of Lords.

That ruling is still pending. Yesterday's case involved a separate action on their behalf by the European Commission for "interim measures" (essentially an injunction) against the UK.

The Commission claimed that by imposing nationality requirements in Sections 13 and 14 of the Merchant Shipping Act the UK had failed to fulfil its obligations to provide among other things free right of establishment under the Treaty of Rome. The Act says that to be eligible for a new British fishing register a boat has to be owned either by a "qualified person," a British citizen resident and domiciled in the UK, or a "qualified company," a company incorporated in the UK and having its principal place of business there, at least 75 per cent of its shares being owned by one or more qualified persons or companies and at least 75 per cent of its directors being qualified persons.

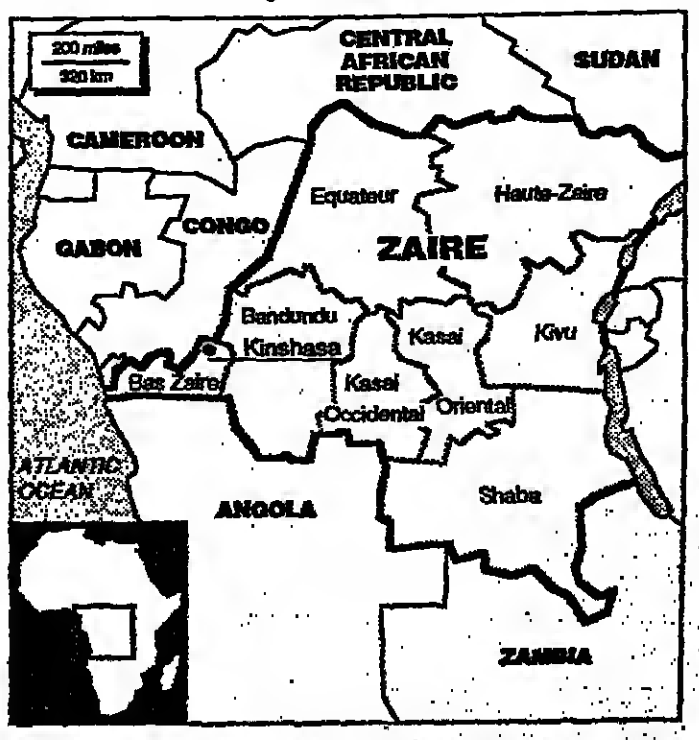
The court was not impressed by British arguments that any member state is at liberty to lay down the conditions for registration of ships and for flying its flag under international law. Nor that the national requirements were justified by the present EC legislation on fisheries. A *prima facie* case was, therefore, established.

As for the other test of interim measures – the urgency of the application – the President of the Court said that a number of vessels might satisfy the registration requirements if the application of the nationality requirement was suspended.

The key nuance to yesterday's order, however, is that it does not refer to the residence and domicile conditions, which have not been raised by the Commission. This means that Spanish fishermen will still have to satisfy those conditions – a requirement which legal experts believe most of them will be unable to meet.

Zaire seeks better climate for timber

Howard Schissel on the country with nearly half Africa's forest land



ZAIRE, THE African country with the greatest forestry resources, is moving to revitalise this high-potential industry by attracting greater foreign investment and expertise as well as upgrading transport infrastructure and local wood transformation facilities.

The bulk of Zaire's immense tropical forest is located east and northeast of Kinshasa in the central basin, covering the regions of Equateur, Haut Zaire and Bandundu; commercially viable forest tracts also exist in Bas Zaire and Kasai Occidental, but to maintain their yield reforestation is necessary. Industry officials estimate that Zaire's forests cover some 250m acres, of which 150m are exploitable. In fact, the country's forest represent 6 per cent of the world's woodlands and almost half of Africa's.

Unlike Brazil or Ivory Coast in West Africa, Zaire's forests are still mainly untouched; population pressure in the hinterland is not a major problem either.

Since the mid-1980s production has been falling from a high of 535,708 cubic metres in 1984 to 372,918 cu m in 1987, the last year for which figures are available. Exports over the same period, however, edged up by 7 per cent to 147,921 cubic metres.

The principal causes of poor performance are aging equipment, deteriorating roads and unreliable railroads, as well as low productivity and extremely dissuasive government taxation, industry officials said.

Mr Pendje Demodeto Yako, the Minister of Land Affairs, Environment and Conservation, is optimistic about the future prospects of the forestry sector, setting the target of 6m cubic metres of wood production by the year 2000, of which 5m should be exported.

"I doubt this level of production can be reached, but considerable headway can be achieved over the next decade to make the Zaire forestry industry a dynamic and profitable part of the national economy," said a western aid official.

Top priority will be given to upgrading transport infrastructure to facilitate the shipping of logs from the hinterland, through Kinshasa, to the port of Matadi. The World Bank is backing a comprehensive $110m transportation rehabilitation scheme.

To attract foreign capital, the timber industry is being liberalised. Canada's Bois et Placages Généraux is to take a majority stake in a previously state-controlled concern, Forescom.

In addition, a simplification of taxes and export procedures is intended to encourage foreign companies in the sector to modernise and expand operations.

Only 10 per cent of the country's woodlands is currently granted in concessions and a mere 1.5 per cent is under development. In spite of Zaire's immense and largely untapped forestry wealth, wood harvesting techniques must be significantly improved – a recent study showed that 25 trees are cut for roadbuilding to evacuate just one tree of commercial interest.

The Zaire Government has also become aware of the environmental implications of massive and uncontrolled forestry. It recently forbade, for example, the export of the Wenge species which was becoming too rare.

The Government's goal is to transform locally more than half the log output, exporting higher value-added products like plywood, sawn timber and veneer.

Zaire has the potential to be the largest African supplier of timber products and a major player on the international market, but the Government will have to create a favourable investment climate in order to move in this direction in the 1990s.

WEEKLY METALS PRICES

Prices as supplied by Metal Bulletin (last week's prices in brackets).

ANTIMONY: European free market 99.6 per cent, $ per *tonne, in warehouse, 1,800-1,850* (1,825-1,875).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 4.65-4.95 (4.60-4.90).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 5.50-6.00 (5.70-6.00).

COBALT: European free market, 99.5 per cent, $ per lb, *in warehouse, 7.45-7.60 (7.40-7.60).*

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 225-240 (220-240).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 3.20-3.25 (3.25-3.30).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 5.20-5.75 (same).

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 *kg)-WO, cif, 46-61 (48-62).*

VANADIUM: European free market, *min.* 98 per *cent*, $ a lb VO, cif, 3.95-4.10 (4.20-4.40).

URANIUM: Nuexco exchange value, $ per lb, UO, 9.60 (9.80).

WORLD COMMODITIES PRICES

LONDON MARKETS

COFFEE prices maintained earlier gains up to the close in a technical *correction to the recent decline which* took prices to fresh 14-year lows during trading on Monday. Short-covering and sterling's weakness against the dollar were also supportive. However, market fundamentals are overwhelmingly *bearish*, and the advance will probably not be sustained, dealers said. On the *LME aluminium prices were steady at* the close after falling earlier in expectation of a 100,000 tonne rise in IPAI non-Communist stocks. But good European trade buying interest underpinned the market and when the IPAI figure came in only 23,000 tonnes *higher shortcovering led the recovery.* Tin prices were again in retreat, but there was still no indication which end of the recent $8,100 to $8,600 a tonne range was likely to be tested next.

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$15.80-5.95q	+0.15
Brent Blend	$18.38-8.42q	+.275
W.T.I. (1 pm est)	$20.10-0.15q	+0.25
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$207-209	+3
Gas Oil	$178-179	+4
Heavy Fuel Oil	$97-98	+1
Naphtha	$151-153	
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$362.0	-1.0
Silver (per troy oz)♣	507c	-2
Platinum (per troy oz)	$482.5	-3.75
Palladium (per troy oz)	$135.85	-0.40
Aluminium (free market)	$1795	+5
Copper (US Producer)	137⅝-141½c	
Lead (US Producer)	40.5c	
Nickel (free market)	490c	+5
Tin (Kuala Lumpur market)	22.22r	
Tin (New York)	384.5c	-1.0
Zinc (US Prime Western)	00¼c	-⅛
Cattle (live weight)†	113.49p	-0.87*
Sheep (dead weight)†	160.75p	+6.60*
Pigs (live weight)†	102.11p	-1.43*
London daily sugar (raw)	$350.0y	+2.4
London daily sugar (white)	$403.5y	+2.6
Tate and Lyle export price	£338.5	+3.5
Barley (English feed)	£112.5x	
Maize (US No. 0 yellow)	£124.5	
Wheat (US Dark Northern)	£127.5w	
Rubber (spot)♥	58.75p	+0.75
Rubber (Nov)♥	59.75p	+0.75
Rubber (Dec)♥	60.50p	+0.75
Rubber (KL RSS No 1 Nov)	231.0m	
Coconut oil (Philippines)§	$467.5y	-7.5
Palm Oil (Malaysian)§	$307.5	-12.5
Copra (Philippines)§	$310q	
Soyabeans (US)	£167q	
Cotton "A" Index	82.20c	-0.85
Wooltops (64s Super)	697p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. y-Oct/Nov. x-Oct/Dec. t-Jan/Mar. v-Sep/Oct. w-Oct. q-Nov. z-Jan/Feb†Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

COCOA – London FOX £/tonne

	Close	Previous	High/Low
Dec	753	754	760 760
Mar	720	720	729 710
May	736	729	736 728
Jul	743	743	747 739
Sep	759	760	760 756
Dec	787	785	790 782
Mar	810	808	811 800

Turnover: 7039 (6180) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Oct 9 868.12 (857.23) :10 day average for Oct 5 870.48 (873.47)

COFFEE – London FOX £/tonne

	Close	Previous	High/Low
Nov	690	670	690 665
Jan	674	655	674 657
Mar	683	665	684 666
May	696	675	700 665
Jul	713	693	713 705
Sep	734	715	735 720
Nov	756	730	743

Turnover: 2760 (4554) lots of 0 tonnes
ICO indicator prices (US cents per pound) for Oct 9: Comp. daily 58.44 (59.88). 15 day average 65.86 (66.46)

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low
Dec	310.00	312.20	308.00
Mar	305.20	307.40	309.20 303.80
May	300.00	302.80	304.00 289.00
Aug	294.40	296.20	296.60 294.00
Oct	285.00	287.00	286.20
White	**Close**	**Previous**	**High/Low**
Dec	388.00	385.80	380.50 385.00
Mar	386.00	387.50	390.00 384.00
May	385.00	386.50	389.00 383.00
Aug	390.00	390.00	392.30 389.00

Turnover: Raw 1988 (2849)lots of 50 tonnes. White 777 (1093).
Paris- White (FFr per tonne): Dec 2491, Mar 2500, May 2505, Aug 2565, Oct 2440, Dec 2370.

CRUDE OIL – IPE $/barrel

	Close	Previous	High/Low
Nov	18.40	18.12	18.40 18.28
Dec	18.10	17.95	18.19 18.04
Jan	17.00		17.95 17.86
IPE Index	18.10	18.29	

Turnover: 9790 (4052)

GAS OIL – IPE $/tonne

	Close	Previous	High/Low
Oct	176.00	173.25	176.50 174.75
Nov	173.75	171.25	174.50 173.00
Dec	172.25	169.50	172.25 171.00
Jan	170.25	167.75	170.50 169.25
Feb	166.25	164.50	167.50 166.25
Mar	162.50	160.50	162.50
Apr	169.50	157.00	169.50
May	157.00		157.00

Turnover 11981 (3495)lots of 100 tonnes

JUTE
October/November 1989 c and f Dundee BTC $500, BWC $500, BTD $460, BWD $450; c and f Antwerp BTC $475, BWC $475, BTD $445, BWD $435.

COTTON
Spot and shipment sales for the week ended October 6th amounted to 1322 tonnes against 1321 tonnes in the previous week. Moderate trading occured with interest in Israeli, American, west African and Pakistan growths.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 11,125 tonne
Cash	1805-10	1805-10		1797-800		
3 months	1766-75	1763-5	1769/1740	1762-3	1768-9	34,886 lots
Copper, Grade A (£ per tonne)						Ring turnover 26,950 tonne
Cash	1895-7	1868-9	1885/1878	1878-9		
3 months	1895-6	1869-70	1900/1870	1877-8	1892-3	71,168 lots
Lead (£ per tonne)						Ring turnover 4,525 tonne
Cash	463-4	458-9	467/462.5	463-3.5		
3 months	463-3.5	459-60	468/461	462.5-3	465-6	12,952 lots
Nickel ($ per tonne)						Ring turnover 624 tonne
Cash	10650-700	10600-25	10700/10650	10650-70		
3 months	10350-70	10300-50	10400/10325	10350-75	10350-60	5,944 lots
Tin ($ per tonne)						Ring turnover 280 tonne
Cash	8360-70	8375-400		8350-60		
3 months	8350-60	8375-400	8380/8330	8370-5	8330-5	5,522 lots
Zinc, Special High Grade ($ per tonne)						Ring turnover 8,225 tonne
Cash	1688-90	1665-70	1690/1680	1685-7		
3 months	1683-5	1660-5	1685/1665	1679-80	1680-5	14,183 lots
Zinc ($ per tonne)						Ring turnover 3,225 tonne
Cash	1625-8	1615-20		1620-2		
3 months	1612-5	1600-5	1615	1600-10	1615-20	4,437 lots

LME Closing £/$ rate:
SPOT: 1.5565 — *3 months:* 1.5326 — *6 months:* 1.5078 — *9 months:* 1.4884

POTATOES – BFE £/tonne

	Close	Previous	High/Low
Nov	133.0	137.3	139.0 133.0
Feb	167.0		164.0
Apr	210.8	211.0	210.5 208.5
May	238.0	240.0	238.0 238.0

Turnover 230 (268) lots of 40 tonnes.

SOYABEAN MEAL – BFE £/tonne

	Close	Previous	High/Low
Dec	139.50	140.50	139.50
Apr	142.00	143.00	142.00

Turnover 30 (25)lots of 20 tonnes.

FREIGHT FUTURES – BFE $10/index point

	Close	Previous	High/Low
Oct	1520	1520	1520 1506
Nov	1604	1600	1600 1589
Jan	1620	1621	1620 1510
Apr	1646	1645	1646 1637
Jul	1400	1414	1405 1400
BFI	1476	1470	

Turnover 498 (189)

GRAINS – BFE £/tonne

Wheat	Close	Previous	High/Low
Nov	108.35	108.75	108.60 108.20
Jan	112.75	113.25	113.00 112.70
Mar	116.00	116.50	116.20 116.00
May	119.00	119.65	119.25 119.00
Jun	120.55	121.10	120.70
Barley	**Close**	**Previous**	**High/Low**
Nov	106.05	106.55	106.05 105.95
Jan	109.90	110.55	110.30 109.95
Mar	113.00	113.70	113.20 113.10
May	114.80	115.50	114.80 114.80

Turnover: Wheat 236 (476), Barley 244 (145).
Turnover lots of 100 tonnes.

PIGS – BFE (Cash Settlement) p/kg

	Close	Previous	High/Low
Nov	136.5	138.0	136.0
Feb	124.0	123.5	124.0 123.5
Apr	125.0	124.0	124.5
Jun	122.0	122.0	122.0
Aug	116.0		115.5

Turnover 41 (11) lots of 3,250 kg

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	381¼-382¼	231¾-232¼
Opening	382½-383	230¾-231¼
Morning fix	382.30	230.911
Afternoon fix	381.00	231.025
Day's high	382½-383	
Day's low	381¼-381¾	
Coins	**$ price**	**£ equivalent**
Mapleleaf	371-376	238-241
Britannia	371-376	236-241
US Eagle	371-376	238-241
Angel	371-376	238-241
Krugerrand	381-384	231-233
New Sov.	85-86	54¼-55
Old Sov.	85-86	54¼-55
Noble Plat	488.30-498.05	311.20-316.15
Silver fix	**p/fine oz**	**US cts equiv**
Spot	323.20	507.10
3 months	335.35	518.25
6 months	347.55	529.15
12 months	371.30	551.55

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Nov	Jan	Nov	Jan
1700	111	107	8	42
1800	44	57	40	90
1900	11	28	106	157
Copper (Grade A)	**Calls**		**Puts**	
2800	184	188	24	95
2900	88	115	76	168
2950	33	65	169	265
Coffee	**Nov**	**Jan**	**Nov**	**Jan**
650	47	48	7	24
700	17	30	27	68
750	3		63	
Cocoa	**Dec**	**Mar**	**Dec**	**Mar**
700	81	62	28	43
750	57	40	54	71
800	22		69	
Brent Crude	**Dec**	**Jan**	**Dec**	**Jan**
1800	47	57	31	61
1850	24	38		
1900	10	22		

US MARKETS

IN THE METALS, gold, silver and platinum all were *lower as technical selling along* with a strong U.S. dollar pressured the markets, reports Drexel *Burnham Lambert. Copper prices fell* sharply after making new contract highs early on. Profit taking forced prices through support levels and elected stops. December copper lost 3.55 closing at 128.05. In the softs, cocoa traded down to contract lows *from scattered speculative selling.* Coffee prices firmed with roaster *buying featured along with local short* covering. Sugar drifted lower after light trading. The grains had fund selling weaken the soy complex. Soyabeans made new contract lows closing at *552½*, basis November. Corn and wheat were mixed. The livestocks had *quiet* pork belly and hog markets, while cattle prices gained from increased packer interest. Fewer delivery notices also added support. The energy complex was firm for most *of the session from local activity.*

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Oct	361.0	363.1	362.5	361.9
Nov	363.3	365.5	0	0
Dec	365.2	367.4	367.8	364.7
Feb	369.2	371.4	371.3	368.5
Apr	373.2	375.5	374.5	373.3
Jun	377.2	379.5	379.0	377.0
Aug	381.1	383.4	0	0
Oct	385.3	387.6	0	0
Dec	389.5	391.8	390.8	389.2

PLATINUM 00 troy oz; $/troy oz.

	Close	Previous	High/Low	
Oct	480.9	486.3	483.0	481.9
Nov	482.4	486.8	484.0	484.0
Jan	486.9	491.3	490.3	486.1
Apr	490.9	495.0	492.0	490.0
Jul	494.6	499.7	497.0	494.5
Oct	498.4	502.3	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Oct	503.0	505.0	507.0	503.0
Nov	506.1	508.4	0	0
Dec	510.0	512.3	515.0	508.0
Jan	512.9	015.2	0	0
Mar	521.3	523.7	526.0	520.0
May	528.7	531.2	532.5	527.0
Jul	536.3	538.9	539.0	537.0
Sep	543.9	546.7	547.5	548.0
Dec	554.9	557.9	560.0	555.0
Jan	558.5	561.5	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

Oct 9	Oct 5	mnth ago	yr ago
1856.2	1855.3	1909.5	1865.9

DOW JONES (Base: Dec. 31 1974 = 100)

Spot	129.31	129.82	129.15	132.91
Futures	129.77	130.68	130.25	137.45

COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	131.15	134.85	0	0
Nov	129.80	133.60	0	0
Dec	128.05	131.00	133.70	127.90

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Nov	20.12	20.02	20.15	20.04
Dec	19.98	19.86	19.99	19.87
Jan	19.74	19.60	19.74	19.63
Feb	19.51	19.42	19.55	19.45
Mar	19.36	19.26	19.38	19.30
Apr	19.19	19.14	19.24	19.19
May	19.10	19.03	19.13	19.13
Jun	19.03	18.99	19.04	19.00
Jul	18.88	18.84	18.95	18.88
Aug	18.86	18.76	18.88	18.86

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Nov	5940	5877	5940	5890
Dec	5960	5921	5960	5930
Jan	5925	5868	5925	5880
Feb	5765	5720	5760	5755
Mar	5540	5495	5550	5520
Apr	5340	5285	5340	5310
May	5190	5130	5200	5170
Jul	5050	4985	5050	5030
Aug	5100	5033	5100	5100

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Dec	993	1004	1007	988
Mar	997	1009	1010	992
May	1015	1022	1021	1007
Jul	1033	1042	1040	1027
Dec	1075	1091	1088	1078
Mar	1099	1120	1114	1098

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Dec	69.51	68.72	70.90	69.00
Mar	72.12	71.25	73.20	71.50
May	73.75	73.00	74.85	73.50
Jul	76.01	75.25	76.85	75.50
Sep	78.00	77.80	79.50	77.50
Dec	81.38	80.78	82.50	81.00
Mar	84.25	83.75	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	13.39	13.44	0	0
Mar	13.70	13.75	13.91	13.66
May	13.45	13.55	13.58	13.43
Jul	13.28	13.38	13.45	13.22
Oct	12.90	12.99	13.05	12.83
Mar	12.66	12.75	12.68	12.58

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Dec	73.49	73.86	73.77	73.20
Mar	74.70	74.99	74.85	74.35
May	75.42	75.75	75.60	75.18
Jul	75.35	75.57	75.60	75.10
Oct	70.10	74.58	70.05	0
Dec	68.55	68.77	68.85	68.55

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Nov	136.20	136.75	136.90	136.00
Jan	131.45	131.00	131.00	131.10
Mar	131.05	130.60	131.05	130.50
May	130.80	130.60	131.20	130.65
Jul	130.80	130.60	0	0
Sep	130.50	130.40	0	0
Nov	130.50	130.40	0	0
Mar	130.50	130.40	0	0

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Nov	552/2	556/6	557/0	550/6
Jan	566/6	568/4	569/4	562/6
Mar	576/2	581/0	580/4	575/0
May	586/4	590/6	590/4	584/0
Jul	590/6	597/0	596/4	589/4
Aug	589/4	594/0	594/0	589/0
Sep	575/4	580/4	581/0	575/4

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Oct	18.28	18.15	18.30	17.98
Dec	18.64	18.54	18.73	18.35
Jan	18.90	18.79	18.96	18.56
Mar	19.35	19.24	19.38	19.01
May	19.72	19.60	19.75	19.40
Jul	*20.10*	*19.95*	*20.10*	*19.75*
Aug	20.10	19.98	20.10	19.90
Sep	20.15	20.02	20.15	20.00

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Oct	186.2	188.7	188.1	185.5
Dec	180.2	181.9	181.8	179.5
Jan	178.7	180.5	180.3	178.5
Mar	177.7	179.1	179.1	177.4
May	176.7	178.3	178.2	176.3
Jul	175.8	176.8	177.5	175.8
Aug	175.5	176.0	176.7	175.5
Sep	174.5	175.5	175.5	174.5

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Dec	233/2	235/0	234/6	233/0
Mar	240/2	242/0	241/6	240/0
May	245/6	247/2	247/2	245/2
Jul	248/4	249/0	249/6	248/0
Sep	240/0	241/0	241/2	239/6
Dec	236/2	236/6	237/2	235/6

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Dec	407/0	406/2	408/0	405/2
Mar	403/2	402/2	404/2	401/4
May	385/2	385/0	386/6	384/4
Jul	355/0	354/6	355/6	353/2
Sep	359/0	359/4	360/6	357/4
Dec	369/4	370/4	370/0	368/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	72.85	71.00	72.95	72.40
Dec	74.60	73.82	74.77	74.15
Feb	74.57	73.85	74.70	74.15
Apr	74.70	74.17	74.82	74.42
Jun	71.85	71.52	72.02	71.70
Aug	70.30	69.95	70.50	70.20

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Oct	47.22	46.60	47.40	46.87
Dec	45.92	45.42	45.97	45.30
Feb	45.92	45.87	46.27	45.52
Apr	43.17	43.37	43.60	43.00
Jun	47.82	48.00	48.00	47.40
Jul	48.00	48.20	48.20	47.85
Aug	46.80	46.90	46.90	46.50

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	46.55	46.57	47.15	46.35
Mar	46.20	46.37	46.82	46.10
May	46.90	46.97	47.25	46.60
Jul	46.47	46.65	47.00	46.47
Aug	44.55	44.77	45.10	44.55

LONDON STOCK EXCHANGE

Bearish forecast sparks new setback

A LONDON stock market struggling to sustain a technical rally after four consecutive downward sessions fell heavily late yesterday following bearish predictions from a consultant strategist at BZW, one of the largest UK investment banks. The FT-SE Index, around nine points up in mid-afternoon, fell heavily in later dealings to close with a loss of nearly 29 points on the day.

The savage and herd-like reaction to the BZW note was immediate; headed "The Beginning of a Bear Market," it was prepared by Mr Peter Thompson who is credited with having been closest to predicting the October 1987 Crash. The BZW note predicts that the Footsie could fall to 2,100-2,200 by the end of October and to 1,800 some time during the course of next year.

Account Dealing Dates		
*First Dealings:		
Oct 2	Oct 16	Oct 30
Option Declarations:		
Oct 12	Oct 26	Nov 9
Last Dealings:		
Oct 13	Oct 27	Nov 10
Account Day:		
Oct 23	Nov 6	Nov 20

*New time dealings may take place from 9.00 am two business days earlier

It appeared to crystalise the equity market's growing worries over the slide in sterling and uncertainties about UK Government policies towards both the currency and domestic interest rates. At Prudential-Bache, Mr Bill Smith commented: "There seems to be a policy vacuum."

Equities opened firmly yesterday despite the continued pressure on the sterling/DM rate, and climbed by about 17 Footsie points in the early part of the session. Turnover was relatively high, reflecting both further demand for international stocks and also some bear closing by sellers in the previous trading sessions. However, significant gains were limited to relatively few stocks, with the broad range still very nervous. The market was also encouraged by developments on the takeover front, where both Ferranti and Jaguar were in the public eye.

There was little further impetus, however, and the market settled down to trade cautiously, still waiting for news from the Conservative Party Conference where, it is hoped, Mr Nigel Lawson, the UK Chancellor of the Exchequer, will make a statement on sterling/interest rate policy.

All was brushed aside in late dealings as the market reacted to the BZW review and also to a further dip in the pound against the German mark. The final reading left the FT-SE Index at 2,218.8, a net fall of 28.2 on the day. The Footsie Index has lost over 93 points or 4 per cent since last week's move to 15 per cent base rates.

Equity turnover rose sharply yesterday with Seaq volume at 518.8m shares, against Thursday's total of 425.8m. Increased volume was noted both in early dealings and then again in the final two hours of the trading session.

Notable exceptions to the generally drab backcloth were again provided by stocks such as Guinness and Shell which are attractive because of their overseas earnings content, and also by a handful of takeover stocks, among which Burmah stood out strongly on reports of stakebuilding.

FINANCIAL TIMES STOCK INDICES

	Oct 10	Oct 9	Oct 6	Oct 5	Oct 4	Year Ago	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs	83.91	84.18	84.81	84.14	84.18	88.94	89.29 (6/2)	83.75 (14/6)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	94.86	95.00	95.21	95.01	95.09	97.34	99.59 (16/3)	94.86 (10/10)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1798.7	1822.9	1857.8	1868.2	1880.2	1467.2	2008.6 (5/9)	1447.8 (3/1)	2008.6 (5/9/89)	49.4 (26/6/40)
Gold Mines	209.2	208.2	208.0	209.2	209.4	181.6	215.2 (29/9)	154.7 (17/2)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2218.8	2247.0	2277.5	2281.6	2312.1	1838.3	2426.0 (5/9)	1782.8 (3/1)	2443.4 (16/7/87)	986.9 (23/7/84)
Ord. Div. Yield	4.54	4.48	4.40	4.38	4.32	4.55				
Earning Yld %(full)	10.93	10.76	10.57	10.53	10.36	11.73				
P/E Ratio(Net)(*)	11.03	11.20	11.40	11.44	11.63	10.32				
SEAQ Bargains(5pm)	28,299	28,799	27,459	25,073	25,109	24,329				
Equity Turnover(£m)†	-	911.21	1046.40	924.67	955.73	998.39				
Equity Bargains†	-	28,340	26,553	24,953	25,478	25,317				
Shares Traded (ml)†	-	379.4	397.7	408.0	410.8	394.3				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55 Basis 1000 FT-SE 100 31/12/83. ◇ Nil 10.95

Ordinary Share Index, Hourly changes — Day's High 1839.0 — Day's Low 1796.5

Open	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1823.5	1832.7	1834.7	1831.8	1832.1	1834.0	1837.6	1821.1

FT-SE, Hourly changes — Day's High 2264.2 — Day's Low 2216.8

Open	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
2250.2	2258.9	2258.7	2255.5	2255.9	2258.1	2261.2	2245.3

GILT EDGED ACTIVITY

Indices	Oct 9	Oct 8
Gilt Edged Bargains	98.4	98.5
5-Day average	86.9	83.3

*SE Activity 1974. †Excluding intra-market business & Overseas turnover. Calculation of the FT Indices of daily Equity Bargains and Equity Value and of the five-day averages of Equity Bargains and Equity Value, was discontinued on July 31. Closing values for July 28 available on request. London report and latest Share Index: Tel. 0898 123001.

Large deals in Burmah

The substantial speculation in the market that a series of moves to unravel and rationalise the various cross holdings in Burmah, Calor, Premier and SHV, the Dutch group, gathered pace yesterday with Burmah and Calor shares staging another strong advance.

Talk of SHV adding to its 7.8m share stake in Burmah, some 4.3 per cent of the latter's share capital, triggered more big buying of Burmah where a couple of single deals of 1m each gave added impetus to the buying. Burmah shares raced up to 645p at one point before slipping off late to close a net 16 up at 635p; turnover rose to 3.5m shares.

Calor, where Burmah is thought to retain a stake of around 2 per cent, skipped up to 444p, prior to closing the session up 10 on balance at 425p. Premier shares were the lone poor performer in the grouping, initially moving ahead to 105p but later retreating to close only marginally ahead on the day at 101½p.

Apart from the straightforward "SHV adding to its Burmah stake" stories, the market re-ran another old theory that SHV would sell its 44 per cent interest in Calor to Burmah, with Burmah bidding for the rest of the Calor shares in return for SHV taking a much bigger stake in Burmah. Another tale circulating was that Premier might launch a rights issue to try and deter Burmah from attempting to place its 29.9 per cent stake in the market.

Ferranti upset

The long-drawn out Ferranti saga took a significant turn yesterday when British Aerospace and Thomson-CSF revealed they are considering launching a joint bid for the troubled UK defence electronics group. BAe is thought to have acquired a stake of around 2.5 per cent in Ferranti since its shares were re-listed last week.

The news upset the Ferranti share price which retreated on worries about the length of time the BAe/Thomson teams will need to scrutinise the Ferranti International Signal businesses prior to making a full bid.

But electronics analysts were taking the view yesterday that the BAe news, released because of increased speculation in Ferranti shares, would underpin the Ferranti share price, because it would speed up any potential moves by other possible predators.

"What it means is that the whole scenario is moving to one of an auction of Ferranti. This has closed the door on the Ferranti management'a wish to refinance the company and maintain its independence," said one close observer of the Ferranti saga.

Questioned as to a likely bid price for the company, the analyst responded: "It should be above the pre-suspension price of 73½p," but other analysts said a level of nearer 60p than 70p was more appropriate.

Ferranti shares, quoted at 61p immediately in front of the news, subsequently came off sharply as the rest of the equity market was hit, to close a net 4¾ lower at 55p on turnover of 6.8m. British Aerospace shares dropped 19 to 585p on turnover of 2.1m.

Jaguar tumbles

Shares in Jaguar tumbled on speculation that Ford Motor, which has said it wants to taka a stake in the British luxury car maker, may now be actively seeking to acquire the car manufacturing division of Saab-Scania, the Swedish car, truck and aerospace conglomerate.

This view was strengthened in a late afternoon report, quoting a Swedish magazine and claiming that Ford had been offered 50 per cent of the Saab car division. Jaguar shares closed at 658p, a fall of 32 on the day, as nearly 6m shares were traded.

Market makers reasoned that such a move by Ford in Sweden might be an indication that it was no longer interested in acquiring Jaguar, reducing the possibility of a bid war with General Motors. GM confirmed this week that it is holding talks with Jaguar about joint ventures and the possibility of acquiring a minority stake.

But analysts were not convinced that Ford's reported interest in Saab signalled the end of its interest in Jaguar, particularly as the two companies are in different sectors of the car market. And after the market had closed, a Ford executive said the company had already bought Ford shares and would continue to do so.

Unilever firm

Unilever again managed to avoid the heavy losses suffered by the rest of the market. Its strong overseas exposure, particularly in Europe, helped attract institutional interest at a time of marked sterling weakness and concern about weak UK economic growth.

In addition, dealers noted some UK institutions had switched their holdings of Unilever's NV for Unilever's UK shares. The UK shares continued to trade at a historically large discount to the Dutch shares, prompting the institutions' move, they said. US houses also showed an interest in Unilever, due its high-performing US subsidiaries. Unilever closed down just 2 at 647p on a turnover of 1.4m shares.

The rest of the food manufacturing sector also conceded only small losses as investors continued to favour its defensive qualities at a time of economic slowdown.

RHM was boosted in early trading on talk that Allied-Lyons could be the white knight that Sunningdale would sell its 29.9 per cent RHM stake to. Press reports over last weekend suggested that Sunningdale would be willing to sell its stake to a friendly buyer.

However, most traders doubted that Allied-Lyons would be the buyer as it would face possible objections from the Monopolies and Mergers Commission. This prompted the share to slip back. Analysts said, though, that as RHM did not have the same bid premium contained in it as other takeover favourites, it should hold steady if the rest of the market continues to fall. RHM closed down 2 at 438p.

Hillsdown dropped 11 to 277p as dealers reacted negatively to its diversified interests, particularly property, at a time of high interest rates.

Leading stores steadied after several particularly fraught days of trading brought on by last Thursday's interest rates rise. Most closed barely changed on the day.

A 55 per cent improvement in profits at the interim stage from leisure wear supplier Helene of London pushed the shares 2½ better to 33p. The chairman's statement struck a positive note, saying that the company "was not affected bythe reported downturn in the retail sector."

Dealers blamed a recent rises Sock Shop's shares on a bear squeeze rather than vague bid talk. The shares slipped a penny to 105p.

News that a subsidiary of Mr Michael Ascroft's ADT had taken a 4 per cent stake in BAA helped the latter's shares. Mr Alan Kelsey, analyst at Kitcat & Aitken Group pointed out that Canadian Transport group Laidlaw has 27 per cent stake of ADT, although any bid is ruled out by the 15 per cent limit on any single shareholding in BAA.

BAA ended 2 up on the day at 337p. ADT fell on the news, closing 4½ down on the day at 201p.

Shares in James Neill, the Sheffield based toolmaker, made a spectacular jump of 67 to close at 269p, as the company bowed to an agreed bid from Markoffer, part of the BMG Patricof Group, an international investment banking and Venture capital company.

The shares were suspended before the bid was announced but thereafter rose to close at at 269p, a rise on the day of 67. The deal valued the group at £77.5m.

Profits warning from USM quoted company Gaynor Group, a Manchester based manufacturer of carrier bags and plastic packaging for clothing retailers sent shares sliding. Shares closed at 62p, a drop of 32 on the day.

The company said profits for the year ending August 31 would be "below expectations", and analysts now believe profits will be in the £100,000-£150,000 bracket, well below the £300,000 forcast earlier.

The oil sector extended its recent outperformance against the broad market, with specialists again highlighting the sector's traditional defensive qualities. The oil team at Kitcat & Aitken said they have "changed their view on the oil price - not by much but enough to make a significant difference to sentiment generally; we now believe oil prices will be increasingly prone to upward price pressures, accordingly the sector's attractions become that more compelling."

Shell registered further outstanding progress, touching 451¼p before closing a net 5¾ up at 446p on turnover of 7.1m. Dealers said there had been further evidence of switching out of Royal Dutch into Shell – "quite right, the ratios are out of line but that is also the case with Shell/BP where the former is at a two-year relative high to the latter," according to one analyst. BP, on turnover of 8.2m shares, held at 302p.

Encouraging drilling news from its latest T-Block appraisal well, 16/17-18, lifted LASMO to 512p before a close of 505p, up 3.

Shares in BM Group, closed up 8 at 502p, on the company reporting a 79 per cent increase in year end profits.

The company said its UK businesses were now firmly focused and acquisitions in Australia, France and the US had also contributed to the profits growth, and were expected to make an even greater impact in coming years.

News that McCaw, where British Telecom has a 22 per cent stake, has increased its offer for LIN Broadcasting, the US cellular radio group, to $125 a share, topping the $110 a share offer from US group Bell South, was said by dealers to have been behind the latest in a series of re-ratings of the Racal twins – "The McCaw deal values LIN at around $295 per head of population, up from the $275 "per pop" valuation given to the Metromedia deal last week," noted one analyst.

Racal Telecom ended a brisk session 15 higher at 378p while Racal Electronic settled 2 ahead at 236p on 2.3m. British Telecom eased a penny to 258p.

Unitech continued to reflect talk that Doctor Tito Tettamanti, the Swiss arbitrageur, has been back in the market adding to his stake in the company, last revealed as 7.83m shares, or 11.7 per cent of the Unitech issued capital; Unitech shares closed a net 3 higher at 360p, after 364p.

Sun Life remained the subject of talk that UAP, the French group could be in the marekt increasing their holding, although dealers noted that turnover in Sun Life, around 50,000 shares, did not point to aggressive stakebuilding.

Midland were the worst hit of the clearers, the shares sliding 15 to 342p on 1.1m. Merchant banks, hit by the market's retreat, showed SG Warburg 14 down at 398p.

First National Finance, upset by the hike in base rates and talk of a brokers downgrading, dropped 13 to 212p.

here was little or no respite for most of the insurance stocks, but Royal stood out, climbing to 474p at one point before ending a busy session a net 9 up at 469p; dealers remained convinced that little, if any, of the former 6 per cent plus stake built up over the past year or so, remains unsold. "With that overhang now gone, the outlook for Royals is much brighter," said one dealer.

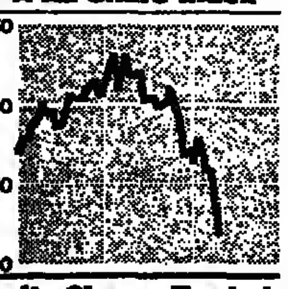
Saatchi & Saatchi weakened quickly as profit-takers moved in after recent rises on the back of takeover talk. The shares fell 17½ to 332p.

A profit warning from News International's Australian parent, News Corporation, left the former's shares 21 down

EMAP staged a long-awaited bounce after recent steep falls. The share ended 6 better

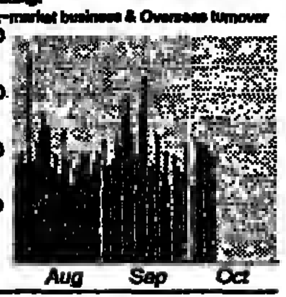
■ Other market statistics, including FT-Actuaries Share Index and London Traded Options, Page 29

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)
Excluding:
Intra-market business & Overseas turnover



TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

NEW HIGHS AND LOWS FOR 1989

NEW HIGHS (73).
AMERICANS (10) BANKS (3) BREWERS (2) CHEMICALS (1) ELECTRICALS (5) ENGINEERING (1) FOODS (3) INDUSTRIALS (9) [illegible] (8) LEISURE (1) PAPERS (2) TRUSTS (15) OILS (4) OVERSEAS TRADERS (1) MINES (2).

NEW LOWS (283).
BRITISH FUNDS (16) BANKS (1) BREWERS (1) BUILDINGS (36) CHEMICALS (7) STORES (16) ELECTRICALS (21) ENGINEERING (9) FOODS (6) INDUSTRIALS (56) ASD, Airsprung, Apollo Watch Prod., Arley, Avon Rubber, BLP, Beazer, Beckenham, Bonlox, Bestwood, Bodycote Int'l., Brammer, CH Ind's., CMB [illegible] Just Rubber, Metal Closures, Minty, NMW Comps., Quotient, Renmore, Sale Tilney, Savage, Scot. Hert., Select Appts., Silentnight, Tamaris 8½pc Cm. Pf., Third Mile Inv., Tubular Exhbs., Walker Greenbank, West Inds., Whittington, Williams, Do. 5p Cv. Pf., Wills Grp., Yale & Valor, INSURANCE (8) LEISURE (6) MOTORS (17) PAPERS (15) PROPERTY (20) SHOES (1) TEXTILES (4) TRANSPORT (3) TRUSTS (22) OILS (4) OVERSEAS TRADERS (1) MINES (3) THIRD MARKET (1).

APPOINTMENTS

Senior posts at IMI subsidiaries

■ IMI has appointed Mr John Tamberlin as managing director of IMI Titanium from November 1, succeeding Dr T.W. Farthing who is retiring. He was managing director of IMI Yorkshire Copper Tube, where he is succeeded by Mr Derek Warner, who was production director. Mr David Hughes, who was factory manager, becomes production director.

■ Mr Dorian Manville-Hales has been appointed marketing director of DANIELS GROUP, a subsidiary of Ashbourne Finance.

■ LONDON & EDINBURGH INSURANCE GROUP has appointed Mr Mike Anstee as director, electronic marketing. He rejoins the group after three years as systems director of the Lloyd's Insurance Brokers Committee.

■ Mr Francis Infante has joined BANCO PORTUGUES DO ATLANTICO, London branch, as head of treasury operations. He was with Eulabank, London, as senior manager treasury.

■ Mr Mac Anderson, Mr Tony Howard, and Mr Kevin Moran have been appointed assistant directors at GREENWELL MONTAGU STOCKBROKERS, private client subsidiary of Midland Group.

■ Mr Terry Spratt, former vice chairman of Safeway, and a non-executive director of the Argyll Group, has been appointed non-executive chairman of the STORE DEVELOPMENT GROUP.

■ BIRRELL SMITH UNDERWRITING AGENCIES has appointed Mr John Moody to succeed Mr John Birrell as underwriter for Marine Syndicate 363/364.

■ MURRAY LAWRENCE & PARTNERS has agreed with Birrell Smith Underwriting Agencies to terminate the agreement from December 31 whereby BS underwrote for T.A. Bowring & Others Marine Syndicate 28/29. Mr David K.L. White will be appointed active underwriter for the syndicate for 1990, and has been made a director of Murray Lawrence.

■ LOVELL GROUP has made the following appointments: Mr John Nowak, construction director, and Mr Paul Marshall, commercial director, Lovell Homes Southern; Mr Jim Dunsmore, financial director, Lovell Homes (Scotland); Mr Ray Stradling, commercial director, Lovell Homes Eastern; Mr Keith Williams, director, Lovell Partnership Homes (Wales and Midlands); and Mr Peter Marten, director, Lovell Partnership Homes (Eastern).

Bimec chief executives

■ BIMEC INDUSTRIES has appointed chief executives for each of its four divisions. Mr Roy Windley, managing director of Aero and Industrial Technology, has been promoted to Bimec aerospace division following the recent acquisition of Allan Ford Aircraft Service.

Dr Colin Whisper has joined the group as chief executive of Bimec Environmental.

Mr Joe Sugden, formerly chairman of the recently acquired Air Control (Holdings), has been made chief executive of Bimec Air Control (Holdings).

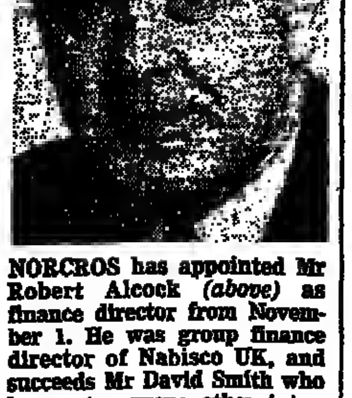
Mr Fred Thurlow, who joined the group in May, has been appointed chief executive of Bimec electrical division.

■ Mr P.F. Foreman has been appointed commercial lines director, SUN ALLIANCE INSURANCE INTERNATIONAL. He was divisional manager, commercial insurances.

■ Mr Peter J.M. Fairlie has been appointed managing director of GLENTURRET DISTILLERY, Crieff, Perthshire. He succeeds his father James who is retiring. Mr James Fairlie will remain on the board as a consultant.

■ BEESON GREGORY has appointed Mr Richard Langdon as its non-executive chairman. He was formerly senior partner of Spicer and Oppenheim.

■ HERITAGE, the housewares importer and distributor, has made the following appointments to the board of the principal operating subsidiary, Heritage Housewares. Mr Mark Hillson joins the main board with responsibility for financial management. Mr Eddie Thompson has resigned.



NORCROS has appointed Mr Robert Alcock (above) as finance director from November 1. He was group finance director of Nabisco UK, and succeeds Mr David Smith who leaves to pursue other interests. Mr Michael Doherty, deputy chairman and chief executive, adds the role of chairman of the ceramics division, where Mr Joe Matthews and Mr Michael Derbyshire become joint managing directors.

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AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
High Income						
American Income	6	58.57	59.20	62.98	+0.78	4.35
Gilts & Fixed Int	6	107.0	107.8m	114.3	-0.4	8.75
High Inc Equity	6	132.4	135.2d	143.9	-0.7	4.41
Worldwide Bond	6	205.9	205.9	218.1	+2.1	4.00
Capital Growth						
American Growth	6	212.9	214.8	228.6	+2.4	0.83
Asian Pacific	6	118.7	121.0	128.8	+1.1	1.01
Assets & Earnings	6	158.9	158.9	170.0	-0.1	2.10
Capital Reserve Acc	0	86.82	86.82	86.90	+0.21	4.60
Capital Reserve Inc	0	77.07	77.07	77.14	-0.19	5.19
Comdty & Energy	6	113.1	116.2d	123.7	+0.2	1.54
1992 Enterprise	6	60.27	61.41	60.34	-0.06	1.96
Euro Capital Acc	6	100.6	101.2	107.7	+1.1	0.70
Euro Capital Inc	6	90.93	97.66	103.9	+1.1	0.72
General	6	173.9	175.9d	188.2	-0.3	2.66
International	6	57.21	58.10	61.81	+0.43	0.01
Japan	6	124.0	125.0	133.0	+0.6	0.00
Mastertrust	6	94.01	94.01	100.6	-0.64	1.69
UK Growth Acc	6	195.0	195.0d	208.6	-1.9	1.34
UK Growth Dist	6	128.7	128.7d	137.7	-1.3	2.03
US Emerging Cos	6	58.50	59.97d	63.80	+0.34	0.00
Income & Growth	6	301.6	307.7	327.4	-0.7	3.11
Ethical	6	48.27	48.27	51.63	-0.38	1.94

Abtrust Management Ltd (1000)H
10 Queens Terrace, Aberdeen AB9 1QJ 0800 833580

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Amer Inc & Growth	5¼	35.06	35.05d	37.41	-0.36	2.70
European	5¼	78.00	78.19	83.47	+1.07	0.00
European Income	5¼	73.65	73.65d	78.67	-0.09	2.38
Exempt	1	789.2	789.2d	820.8	-5.10	1.88
Extra Income	5¼	43.82	43.82d	46.75	-0.25	4.46
F East Emerg Ecos	5¼	60.26	60.31	64.83	+0.82	0.33
Fund Inv Tst	5	129.8	131.1d	140.0	-0.30	1.93
Do Accum	5	202.1	204.2d	218.0	-0.80	1.95
Gilt & Fixed Int	5¼	20.94	21.71d	23.18	-0.04	10.38
Income & Growth	5¼	71.24	72.24d	77.11	-0.42	3.83
Intl Income	5¼	69.02	69.02	73.68	-1.65	4.59
Japan	5¼	220.2	220.2	235.1	-2.00	0.00
Pacific	5¼	445.4	445.6	477.3	+5.20	0.28
Secure Income	5	198.3	198.3d	211.7	-1.10	5.74

Provident Mutual Unit Tst Mgrs Ltd (0905)H
25-31 Moorgate, London, EC2R 6BA. 01-588 3963

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
PM Equity Gth	5	119.3	119.3	126.9	-2.2	2.72
PM Income & Gth	5	99.14	99.14d	105.4	-1.1	4.15
PM Nth Amer Gth	5	65.00	65.05	69.20	+1.24	1.09
PM European Gth	5	67.51	63.73	67.78	+1.19	0.66
PM Japan Gth	5	82.24	82.39	87.64	+1.05	0.28
PM Overseas Gth	5	58.66	58.66	62.40	+1.04	0.42

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the consumer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ♣ - 1401 to 1700 hours; ♠ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers. Other explanatory notes contained in last column of the FT Unit Trust Information pages.

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	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Waverley Unit Tst Mngmt Ltd (1000)F						
13 Charlotte Sq, Edinburgh 031-225 1551						
Australasian Gold	5	17.34	17.47	18.[illegible]	-0.11	0.00
Pacific Basin	5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can Balanced Gwth 6	5	54.50	54.50	57.97	[illegible]	[illegible]
Classic Max 4	4	[illegible]	0.9753	1.0[illegible]	[illegible]	7.45
Penny Share	5¼	29.50	29.50	32.38	[illegible]	[illegible]
Wellington Fund Mngrs Ltd (1200)F						
2, London Bridge, SE1 01-407 4404						
Wellington Income	5¼	136.8	138.5xd	147.4	+0.1	[illegible]
Wellington Growth	5¼	229.0	231.3xd	246.1	+5.5	[illegible]
Wessex Asset Management (1330)F						
1 Richmond Hill, Bournemouth BH2 6HW 0202 [illegible]						
Wessex UK Gwth	4½	111.6	115.6	120.4	[illegible]	[illegible]
Whittingdale Unit Tst Mgmt Ltd						
2 Honey Lane, London EC2V 8BT 01-606 3132						
Challenger	2½	[illegible]	60.74	62.24	[illegible]	[illegible]
Short Dtd Gilt	1	[illegible]	[illegible]	82.19	[illegible]	[illegible]
US Govmt Bnd	1¼	.5721	.5721	.5790	[illegible]	[illegible]
Willbro Financial Services Ltd (0900)F						
PO Box 515 Austin Friars, London EC2 01-588 7511						
Aust Friars Wrldde	5	202.1	204.8	217.8		2.42
Windsor Trust Mngrs Ltd (1200)F						
83 Kingsway, London, WC2B 6SD 01-405 8331						
Capital & Equity	5	[illegible]	[illegible]	69.50	[illegible]	[illegible]
European	5	79.23	79.51	84.58	[illegible]	[illegible]
Far Eastern	5	[illegible]	70.77	75.28	[illegible]	[illegible]
Growth Inc	5	[illegible]	[illegible]	91.00	[illegible]	[illegible]
Growth Acc	5	[illegible]	[illegible]	91.17	[illegible]	[illegible]
Income Inc	5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Income Acc	5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Property Share	5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Smaller Co's	5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nth American	5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
International	5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Wright Seligman Fund Mngrs Ltd (1700)F						
11 Blomfield St, London EC2M 7AY 01-588 [illegible]						
Intl Growth	5	[illegible]	[illegible]	121.13		[illegible]
UK Growth	5	[illegible]	[illegible]	[illegible]		[illegible]
UK Income	5	[illegible]	[illegible]	100.64		[illegible]
Weekly dealing day Tuesday						
The Yorkshire Unit Tst Mngrs Ltd (1100)F						
Woodsome Pk, Fenay Bridge, Huddersfield 0484 602250						
Yorkshire General	5¼	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YUTM UK Eqty Inc Tst	5¼	57.41	57.41xd	[illegible]	[illegible]	[illegible]
YUTM Mgd Gwth Tst	5¼	[illegible]	[illegible]	62.18	[illegible]	[illegible]

OTHER UK UNIT TRUSTS

[illegible]

INSURANCES

[illegible]

Continued on next page

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Premium Life Assurance Co Ltd
37-39, Perrymount Road, Haywards Heath 0444 458721

	Bid Price	Offer Price	+ or -	Yield Gross
American	133.0	140.0	+2.0	-
Building Soc. Fd	174.0	184.0	—	-
Balanced	290.0	306.0	—	-
European	199.0	210.0	+2.0	-
GT Managed	195.0	206.0	+1.0	-
Gartmore Mngd	130.0	137.0	+1.0	-
German	145.0	153.0	+1.0	-
Gilt	180.0	190.0	-1.0	-
Global	50.0	53.0	—	-
High Inc.	120.0	127.0	—	-
International Equity	206.0	217.0	+1.0	-
Japan	277.0	292.0	—	-
Managed	61.0	65.0	—	-
Property	294.0	310.0	—	-
R. W. Imperial Gold	156.0	165.0	—	-
UK Equity	346.0	365.0	-2.0	-
Pension Funds				
American	153.0	162.0	—	-
Building Soc. Fd	177.0	187.0	—	-
Balanced	227.0	239.0	—	-
European	194.0	205.0	—	-
German	125.0	132.0	—	-
Gilt	159.0	168.0	—	-
International Equity	148.0	156.0	—	-
Japan	150.0	158.0	—	-
Managed	65.0	69.0	-2.0	-
Property	225.0	237.0	—	-
UK Equity	322.0	339.0	-0.0	-

Professional Life Assurance Co Ltd
Frobisher Hse, Nelson Gate, Southampton 0703 232325

	Bid Price	Offer Price	+ or -	Yield Gross
Pensions Managed Fund	97.81	103.40	—	-
Pensions Cash Fund	80.54	84.77	—	-

Prolific Life & Pensions Ltd
Stramongate, Kendall, Cumbria LA9 4BE 0539 733733

Managed Fund see Balanced Growth Managed Fund

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds				
Balanced Gwth Mngd	621.2	654.6	+1.0	-
Adventurous Mngd	135.3	142.6	+0.4	-
Secure Mngd	111.4	117.4	+0.1	-
Cash Fd	239.1	252.0	—	-
Property Fund	295.3	314.2	—	-
Equity Fund	706.7	744.7	+2.9	-
Fxd. Int. Fund	296.8	312.0	-0.6	-
International	346.2	364.9	+0.6	-
High Income	456.8	486.0	-0.0	-
Far East	465.3	[illegible]	[illegible]	[illegible]

[illegible]

Prudential Holborn Pensions Ltd—Contd.

	Bid Price	Offer Price	+ or -	Yield Gross
North American	86.4	91.0	+0.9	-
Japanese	158.9	167.3	+0.2	-
European	111.0	116.9	+1.1	-
Special Situations	115.0	121.1	-0.4	-
Communications	110.8	116.7	+0.5	-
Smaller Companies	110.2	116.1	-0.7	-
International Small Cos	151.2	159.2	+1.0	-

Prudential Pension Limited
Holborn Bars, London EC1N 2NH 01-548 3281

	Bid Price	Offer Price	+ or -	Yield Gross
Discretionary Sept 20	£165.97	171.30	—	-
Equity Sept 20	£180.40	187.04	—	-
International Sept 20	£28.95	29.65	—	-
Intl Bond Sept 20	£12.42	12.58	—	-
Fixed Int Sept 20	£73.12	73.93	—	-
Index Linked Sept 20	£62.84	63.62	—	-
Property Sept 20	£116.28	123.13	—	-
Cash Sept 20	£21.2357	21.7357	—	-
Pre-Linked Retirement Plan				
Managed Sept 26	405.0	421.9	—	-
Cash Sept 26	204.1	212.6	—	-
Prudential Pensions Investment Account				
Pens Mngd Sept 27	160.1	172.3	-0.9	-
Pens UK Eq Sept 27	308.5	332.7	-1.7	-
Pens Intl Sept 27	197.9	213.1	-1.3	-
Pens Fixed Sept 27	166.3	175.7	-0.3	-
Pens Index Lk Sept 27	158.7	167.6	-0.6	-
Pens Cash Sept 27	133.2	140.3	—	-

Regency Life Assurance Co Ltd
Regency Hse, Lanark Sq, London E14 9XS 01-538 8800

	Bid Price	Offer Price	+ or -	Yield Gross
Aggressive Pfflo Fd	122.1	128.5	-0.2	-
Balanced Pfflo Fd	319.5	336.3	-0.1	-
Cautious Pfflo Fd	124.4	130.9	+0.0	-
Elite Fund	110.7	116.5	-1.1	-
European Fund	96.4	101.4	+1.3	-
Far East Fund	110.6	116.4	+1.0	-
Fixed Interest Fund	250.1	263.2	+0.9	-
International Fund	298.2	313.0	+4.7	-
Money Fund	180.9	190.4	+0.1	-
N. American Fd	128.3	135.0	+1.3	-
Property Fund	406.1	427.4	-3.8	-
UK Equity Fd	381.9	401.9	-3.7	-
A.I.M. Brewin Dlphn Fd	102.1	107.5	+1.7	-
Swiss Select Invs	118.2	124.4	+1.3	-
Chart Safety First Bd	107.4	113.1	-0.5	-
Exec Master Fd	104.2	109.7	+0.3	-
Hardwick Growth Fd	112.2	110.1	+0.2	-
Bentley Haig LR Port	108.5	114.2	—	-
Milbourne Spec Port	123.6	130.1	—	-

[illegible]

Rothschild Asset Management—Contd.

	Init Charge	Cancn Price	Bid Price	Offer Price	+ or -	Yield Gr's
OCCFL Pta		[illegible]	2112.06		+2.21	12.50
OCCFL SKr		[illegible]	104.62		+0.08	10.40
OCCFL SwFr		[illegible]	30.823		+0.005	6.25
OCCFL U.S.$		$15.566	15.566		+0.001	7.82
OCCFL Yen		[illegible]	3561.15		+0.43	4.34
OCCFL Man £	5	[illegible]	10.826	11.161	[illegible]	11.91

Daily Dealings

Royal Bank of Canada Funds
RBC Offshore Fund Managers Ltd
PO Box 246, St Peter Port, Guernsey 0481 23021

[illegible]

Wardley Investment Services—Contd.

		Bid Price	Offer Price	+ or -	Yield Gross
	$-	12.36	13.12	-0.08	-
Japan Equity	$-	13.56	14.40	+0.06	-
Singapore & Malaysia	$-	9.06	9.62	-0.05	-
UK Equity	$-	9.76	10.36	+0.02	-
USA Equity	$-	10.23	10.80	+0.04	-
Intl Managed Bond	$-	4.42	4.67	-0.06	-
Sterling Bond	$-	9.39	9.91	+0.01	-
US Dollar Bond	$-	4.62	4.86	—	-
Sterling Reserve	$-	9.45	9.93	—	-
US Dollar Reserve					

SWITZERLAND (SIB RECOGNISED)

B.I.A. Bond Investments AG

[illegible]

GUERNSEY (**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

[illegible]

MANAGEMENT SERVICES

[illegible]

IoM (SIB RECOGNISED)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

JERSEY (**)

[illegible]

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1989 High	1989 Low	Stock	Price £	+ or −	Yield Int.	Yield Red.
99	95¾	Treas 5pc 1986-89	99¾xd	.....	–	–
99	98¾	Exch 10¼ pcCv '89	99	+1/16	10.28	13.35
101	99	Treas 13pc 1990‡‡	99	.....	13.06	14.08
132	124	Treas 2pcIL '90(34.6)	132	+1/16	2.09	9.98
99	98	Exch 11pc 1990‡‡	98	.....	11.15	14.08
101	99	Exch. 12½pc 1990	99	.....	12.59	14.25
95	91	Treas. 3pc 1990	95½	.....	3.14	11.30
97	95	Treas 8¼pc 1987-90‡‡	96	−	8.54	15.54
98	95	Treas. 8pc Cv 1990 ‡‡	96	−	8.33	15.57
98	96	Treas. 10pcCv 1990	96	.....	10.34	13.51
93	87	Exch 2½pc 1990	92	−	2.71	10.13
101	98	Treas 11¾pc 1991	98	.....	11.96	13.20
93	89	Funding 5¾pc '87-91‡‡	92	−	6.23	11.59
90	86	Treas. 3pc 1991	89	−	3.36	10.50
100	95	Treas 10pc Cv '91 ‡‡	95	−	10.46	12.86
101	96	Exch. 11pc 1991	97	−	11.34	12.71
94	91	Treas. 8pc 1991	91	−	8.76	12.69
106	100	Treas 12¾pc 1992‡‡	101	+	12.61	12.14
99	95	Treas 10pc 1992	95	+	10.47	12.20
94	90	Treas. 8pc 1992 ‡‡	91	+	8.78	12.21
100	96	Treas 10½pc Cv 1992‡‡	96	+	10.86	12.05
85	82	Treas. 3pc 1992	83	−	3.59	10.18
105	100	Exch. 12¼pc '92	100	+	12.19	11.99
109	103	Exch 13½pc 1992	104	+	12.99	11.85
94	90	Treas 8¼pc 1993	90	−	9.10	11.66
100	95	Treas 10pc 1993‡‡	95½	−	10.46	11.55
108	102	Treas 12½pc 1993‡‡	103	−	12.14	11.47
88	84	Funding 6pc 1993‡‡	84	−	7.11	11.00
113	107	Treas 13¾pc 1993‡‡	107	−	12.79	11.37
94	89	Treas. 8½pc 1994	90	−	9.42	11.40
117	111	Treas 14½pc 1994‡‡	111	−	15.03	13.17
113	107	Exch 13½pc 1994	107	−	12.57	11.36
100	95	Treas. 10pc Ln. 1994‡‡	95	−	10.45	11.20
110	104	Exch. 12½pc 1994	104	−	11.99	11.33

Five to Fifteen Years

1989 High	1989 Low	Stock	Price £	+ or −	Yield Int.	Yield Red.
96	91	Treas 9pc 1994‡‡	91	−	[illegible]	11.12
108	102	Treas 12pc 1995	102	−	[illegible]	11.28
79	73	Exch 3pc Gas 90-95	[illegible]	−	4.11	9.36
101	95	Exch. 10¼pc 1995	96	−	[illegible]	11.15
133	107	Treas 12¼pc 1995‡‡	107	−	[illegible]	13.03
119	112	Treas. 14pc '96	112	−	[illegible]	11.23

LOANS

Building Societies

1989 High	1989 Low	Stock	Price £	+ or −	Yield Int.	Yield Red.
99¾	98	N'wide Anglia 11pc 6.11.89	99¾xd	.....	11.84	16.66
100	98	Do. 12pc 4.12 89	99	.....	12.39	15.49
100	99	Do. 12pc 2.1.90	99	−	12.90	13.37
100	98¾	Do. 12pc 29.1.90	99	−	12.68	15.30
100	98	Do. 12pc 26.2.90	98	−	12.82	15.23
100	98	Do. 12pc 19.3.90	99	−	13.00	13.16
100	99	Do. 13pc 23.4.90	99	−	13.48	13.14
100	98	Do. 13pc 14.5.90	98xd	−	13.14	15.09
100	98	Do. 13pc 4/6/90	99	−	13.82	13.27
100	99	Do. 14pc 2.7.90	99	−	14.39	14.98
100	98	Do. 13pc 23.7.90	98	−	13.77	14.97
100	98	Do. 13pc 13.8.90	98	−	13.61	14.93
107	98	Do. 3pcIL Ln 2021	105½xd	+½	4.29	4.40

Public Board and Ind.

1989 High	1989 Low	Stock	Price £	+ or −	Yield Int.	Yield Red.
47	43	Met. Wtr. 3pc 'B'	46xd	.....	6.52	10.62

FOREIGN BONDS & RAILS

1989 High	1989 Low	Stock	Price £	+ or −	Div % Gross	Red. Yield
45	40	Greek 7pc Ass.	40	.....	3.50	f8.75
45	40	Do. 6pc 28 Stb. Ass.	40xd	.....	3	f7.50
45	40	Do 4pc Mixed Ass.	40xd	.....	2	f5.00
80	65	Hung. '24 Ass.	80	.....	2.75	f3.57
139	128	Hydro Quebec 15pc 2011	129	−	13.00	11.30
128	116	Iceland 14½pc Ln 2016	120	−	14.50	11.91
97	91	Ireland 9¾pc '91-96	91xd	−	9.75	11.50

BRITISH FUNDS—Contd

Over Fifteen Years

Undated

Index-Linked

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

AMERICANS

Continued on next page

ISLE OF MAN (**)

LUXEMBOURG (**)

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

● Latest Share Prices are available on FT Cityline. To obtain your free Share Code Booklet ring the FT Cityline help desk on 01-925-2128

AMERICANS—Contd

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES—Contd

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INDUSTRIALS (Miscel.)—Contd.

[illegible]

INSURANCES

[illegible]

LONDON SHARE SERVICE

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LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING – Contd

[illegible]

PROPERTY

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES – Contd

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND – Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS – Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

MINES – Contd

1989 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's
45	35	♦Ayer Hitam SM1	40	.....	‡Q53.3c	0.7	‡
75	38	Gopeng Berhad M$0.50	75	.....	†Q10c	2.0	3.2
84	47	Malaysia Mng. 10c	74xd	+2	Q5c	4.0	1.6
180	120	Petaling SM1	168	.....	Q87c	1.0	15.1
150	90	Sungei Besi SM1	125	.....	Q70c	1.4	15.4
90	90	Tanjong 15p	90	.....	–	–	–

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

[illegible] dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	96	.....
Craig & Rose £1	890	.....
Finlay Pkg. 5p	76xd	–2
Holt (Jos) 25p	1350	.....
Arnotts	450	.....
Carrol (P.J.)	150	–2
Hall (R. & H.)	180	+2
Helton Hldgs.	92	.....

For Irish Ropes see IRG

IRISH

Cap. 8½% Ln. 1991	£97¼	.....
9pc Cap Ln. 1996	£98½	.....
Fin. 13% 97/02	£118	.....
IRG	228xd	.....
United Drug	138	–2

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	38
Amstrad	11
BAT	80
BOC Grp.	42
BSR	6½
BTR	32
Barclays	42
Blue Circle	24
Boots	25
Bowaters	44
Brit Aerospace	52
British Steel	7½
Brit. Telecom	21
Burton Ord	18
Cadburys	46
Charter Cons.	43
Comm Union	32
Courtaulds	30
FKI	14
FNFC	22
Gen Accident	85
GEC	20
Glaxo	110
Grand Met	48
GUS 'A'	90
Guardian	18
GKN	34
Hanson	16
Hawker Sidd	60
ICI	100
Jaguar	28
Ladbroke	28
Legal & Gen	26
Lex Service	33
Lloyds Bank	29
Lucas Inds	58
Marks & Spencer	15
Midland Bk	30
Morgan Grenfell	24
Nat West Bk	25
P & O Dfd.	55
Plessey	22
Polly Peck	26
Racal Elect	20
RHM	42
Rank Org Ord	88
Reed Intnl	34
STC	32
Sears	10
Smithkline Bchm. A	50
TI	38
TSB	10
Tesco	14
Thorn EMI	58
Trust Houses	24
T&N	18
Unilever	46
Vickers	18
Wellcome	42

Property	
Brit Land	32
Land Securities	52
MEPC	50
Randsworth	28

Oils	
Brit Petroleum	21
Burmah Oil	50
Calor	35
Charterhall	2½
Premier	9
Shell	32
Ultramar	26

Mines	
Cons Gold	150
Lonrho	30
RTZ	40

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £985 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Sterling continues to fall

STERLING RALLIED a little, after another difficult day for the currency, on comments by Mr Alan Greenspan, chairman of the US Federal Reserve. The dollar also gained ground after Mr Greenspan told an audience in Moscow that too much attention to short-run output goals may lead to high inflation rates and reduced growth over the long run.

The Fed chairman also suggested that too much importance may be given to short-run stabilisation of domestic financial or foreign exchange markets, and that such considerations could prove counter-productive to the long term achievement of price stability.

These comments were taken as an indication that the Federal Reserve may not be in any hurry to cut US interest rates. One of the main reasons for the recent strength of the D-Mark has been the assumption that the interest rate differential between Frankfurt and New York will narrow, as the West German Bundesbank tightens its monetary stance while the Fed eases.

The dollar gained over 1 pfennig on Mr Greenspan's remarks, and the decline of the D-Mark provided some support for the weak pound. The Bank of England intervened throughout the day, buying sterling against the dollar.

On Monday the central bank was only seen selling dollars against the pound, but yesterday's intervention also involved sales of Ecus, as sterling fell through DM2.95 in the late afternoon. This triggered stop loss selling orders, pushing the currency down to a low of DM2.9425 as investors continued to square long sterling positions.

The pound moved up with the dollar to close at DM2.9550 in London, but still 2 pfennigs below Monday's finish of DM2.9750. Sterling also lost 2.10 cents to $1.5580 and fell to Y224.25 from Y225.25; to SFr2.5825 from SFr2.5975; and to FFr10.0150 from FFr10.1025. On Bank of England figures the pound's index finished at the day's low, falling 0.8 to 89.0.

Trading volume picked up, with the return of New York traders after the Columbus Day holiday, but this was offset by the closure of Tokyo for a public holiday, leaving the market still relatively thin.

This helped to limit the scale of Bank of England intervention but left traders in London worried that there are still many long sterling positions to be squared and that this will result in further downward pressure on the currency.

The dollar's rise, on Mr Greenspan's remarks, prompted intervention by the Fed. The US central bank sold dollars at around DM1.8945 and Y143.65, but this failed to prevent the dollar moving higher in late European trading.

It closed in London at DM1.8960 against DM1.8845, and also advanced to Y143.95 from Y142.65; to SFr1.6570 from SFr1.6455; and to FFr6.4275 from FFr6.3975. The dollar's index rose 0.1 to 70.5.

£ IN NEW YORK

Oct.10	Latest	Previous Close
£ Spot	1.5545-1.5555	1.5740-1.5750
1 month	0.68-0.67pm	0.86-0.85pm
3 months	2.03-2.00pm	2.39-2.36pm
12 months	7.38-7.28pm	8.45-8.30pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Oct.10	Previous
8.30 am	89.3	90.8
9.00 am	89.2	90.8
10.00 am	89.2	90.1
11.00 am	89.3	89.9
Noon	89.3	89.9
1.00 pm	89.3	89.7
2.00 pm	89.3	89.8
3.00 pm	89.2	89.7
4.00 pm	89.0	89.8

CURRENCY RATES

Oct.10	Bank rate %	Special* Drawing Rights	European † Currency Unit
Sterling #	-	1.26733	1.43822
U.S Dollar	7	1.26636	1.09073
Canadian $	12.36	1.48987	1.27638
Austrian Sch.	6½	16.9072	14.4674
Belgian Franc	10¼	50.9235	43.2201
Danish Krone	10½	9.34574	8.01193
Deutsche Mark	6.00	2.40545	2.05569
Neth.Guilder	7.00	2.70368	2.32150
French Franc	10¼	8.10470	6.97465
Italian Lira	13½	1758.69	1503.69
Japanese Yen	3¼	180.203	156.159
Norway Krone	8	8.83033	7.62527
Spanish Peseta	-	152.310	150.571
Swedish Krona	9½	N/A	7.06846
Swiss Franc	6.00	2.09646	1.79534
Greek Drach.	20½	210.969	181.290
Irish Punt	-	0.888668	0.772469

Sterling quoted in terms of SDR and ECU per £.
† European Commission Calculations.
* All SDR rates are for Oct.6

CURRENCY MOVEMENTS

Oct.10	Bank of England Index	Morgan** Guaranty Changes %
Sterling	89.0	N/A
U.S Dollar	70.5	N/A
Canadian Dollar	105.3	N/A
Austrian Schilling	107.6	N/A
Belgian Franc	106.7	N/A
Danish Krone	104.5	N/A
Deutsche Mark	114.5	N/A
Swiss Franc	107.2	N/A
Guilder	111.4	N/A
French Franc	100.6	N/A
Lira	98.6	N/A
Yen	137.2	N/A

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100) **Rates are for Oct.9

OTHER CURRENCIES

[illegible]

*Selling rate

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Oct.10	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.2201	+1.79	+1.22	±1.5424
Danish Krone	7.85212	8.01193	+2.04	+1.49	±1.6419
German D-Mark	2.05853	2.05569	-0.14	-0.69	±1.1089
French Franc	6.90403	6.97465	+1.02	+0.47	±1.3719
Dutch Guilder	2.31943	2.32150	+0.09	-0.46	±1.5019
Irish Punt	0.768411	0.772469	+0.53	-0.02	±1.6689
Italian Lira	1483.58	1508.69	+1.69	+1.60	±4.0815
Spanish Peseta	133.804	130.571	-2.42	-2.37	-

Changes are for Ecu, therefore positive change denotes a weak currency
Adjustment calculated by Financial Times.

POUND SPOT- FORWARD AGAINST THE POUND

Oct.10	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.5555-1.5750	1.5575-1.5585	0.85-0.83cpm	6.47	2.41-2.38pm	6.15
Canada	1.8250-1.8450	1.8280-1.8290	0.52-0.44cpm	3.15	1.41-1.29pm	2.95
Netherlands	3.33-3.34½	3.33-3.34	2¼-1⅞cpm	7.20	5¾-5⅜pm	6.82
Belgium	61.75-63.35	61.95-62.05	34-31cpm	6.29	91-87pm	5.74
Denmark	11.46½-11.54½	11.48¼-11.49¼	4⅜-4¼orepm	4.64	12⅞-12¼pm	4.35
Ireland	1.1060-1.1150	1.1110-1.1120	0.45-0.40ppm	4.59	1.15-1.05pm	3.96
W. Germany	2.95-2.96¼	2.95¼-2.95¾	1⅞-1¾pfpm	7.36	5¼-5pm	6.85
Portugal	250.25-252.15	250.50-251.50	36-2cpm	0.91	1-56dis	-0.45
Spain	187.00-188.15	187.15-187.45	15-6cpm	0.67	34-24pm	0.62
Italy	2166¼-2173½	2169-2170	6-4lirepm	2.77	15-14pm	2.67
Norway	10.92¼-10.98½	10.93¼-10.94¼	4⅛-3⅞orepm	4.39	10⅞-10⅝pm	3.89
France	10.00-10.05	10.01-10.02	4⅝-4¼cpm	5.39	12⅞-12⅝pm	5.09
Sweden	10.12¼-10.18¼	10.12¼-10.13¼	3-2⅞orepm	3.48	8⅝-8¼pm	3.31
Japan	223¼-225	223¾-224¾	1⅞-1¾ypm	9.70	5-4⅞pm	8.61
Austria	20.62-20.82	20.62-20.65	12-10gropm	6.40	34-31pm	6.30
Switzerland	2.57½-2.58¼	2.57¼-2.58¼	1¾-1⅝cpm	7.84	4⅝-4½pm	7.07
ECU	1.4380-1.4400	1.4390-1.4400	0.58-0.55cpm	4.71	1.65-1.60pm	4.52

Commercial rates taken towards the end of London trading. Belgian rate is convertible francs. Financial franc 62.25-62.35 Six-month forward dollar 4.67-4.62cpm 12 Months 8.42-8.32cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Oct.10	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.5555-1.5790	1.5575-1.5585	0.85-0.83cpm	6.47	2.41-2.38pm	6.15
Ireland†	1.4020-1.4135	1.4035-1.4045	0.20-0.15cpm	1.49	0.70-0.60pm	1.84
Canada	1.1715-1.1750	1.1725-1.1735	0.33-0.36cdis	-3.53	0.93-0.98dis	-3.25
Netherlands	2.1250-2.1450	2.1405-2.1415	0.13-0.11cpm	0.68	0.33-0.29pm	0.58
Belgium	39.55-39.85	39.75-39.85	1.00-2.50cdis	-0.53	3.50-6.00dis	-0.48
Denmark	7.33½-7.39¼	7.37-7.37½	1.05-1.32oredis	-1.93	3.15-3.60dis	-1.84
W. Germany	1.8805-1.9010	1.8955-1.8965	0.13-0.11pfpm	0.76	0.34-0.31pm	0.69
Portugal	160.35-161.45	161.35-161.45	67-77cdis	-5.38	260-285dis	-6.79
Spain	119.45-120.50	120.30-120.40	52-62cdis	-5.71	155-165dis	-5.35
Italy	1380-1392¾	1392¼-1392¾	4.00-4.50liredis	-3.68	11.50-12.50dis	-3.47
Norway	6.97¾-7.02½	7.01¾-7.02¼	1.25-1.50oredis	-2.36	4.00-4.30dis	-2.37
France	6.38-6.44	6.42½-6.43	0.52-0.59cdis	-1.04	1.60-1.80dis	-1.06
Sweden	6.47¾-6.51	6.49¾-6.50¼	1.58-1.73oredis	-3.06	4.50-4.75dis	-2.85
Japan	142.50-144.00	143.90-144.00	0.39-0.37ypm	3.18	0.99-0.96pm	2.72
Austria	13.25-13.33¼	13.32¼-13.33¼	0.30pm-0.20gdis	-0.23	0.90pm-0.90dis	-0.27
Switzerland	1.6425-1.6590	1.6565-1.6575	0.17-0.14cpm	1.13	0.38-0.34pm	0.87
ECU	1.0840-1.0850	1.0840-1.0850	0.16-0.15cpm	1.72	0.45-0.43pm	1.62

Commercial rates taken towards the end of London trading.† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 39.95-40.05.

EURO-CURRENCY INTEREST RATES

Oct.10	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	15-14¾	15-14¾	15⅛-14⅞	15⅛-15	15⅛-15	14⅞-14¾
US Dollar	8¾-8⅝	8⅞-8⅞	8¾-8⅝	8⅞-8⅞	8⅝-8½	8⅝-8½
Can. Dollar	11⅞-11⅝	11⅞-11⅝	12⅛-11⅞	12⅛-11⅞	12⅛-11⅞	12⅛-11⅞
D. Guilder	7⅝-7⅜	7⅝-7⅜	7⅞-7¾	7⅞-7⅞	8-7¾	8-7¾
Sw. Franc	7⅜-7⅛	7⅞-7¾	7⅜-7⅛	7⅜-7⅛	7⅞-7⅞	7⅜-7⅜
Deutschmark	8-7¾	8-7¾	7⅞-7⅞	7⅞-7⅞	7⅞-7⅞	7⅞-7⅜
Fr. Franc	9⅛-9⅛	9⅞-9⅞	9⅜-9⅛	9⅜-9⅛	9⅞-9⅞	9⅞-9⅜
Italian Lire	12-10	12¼-11¼	12⅛-11⅜	12⅛-11⅜	12⅛-12	12½-12⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long term Eurodollars: two years 8⅝-8½ per cent; three years 8⅝-8½ per cent; four years 8½-8⅜ per cent; five years 8½-8⅜ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

[illegible]

EUROPEAN OPTIONS EXCHANGE

[illegible]

TOTAL VOLUME IN CONTRACTS : 47,413
A=Ask B=Bid C=Call P=Put

MONEY MARKETS

Nervous tone

INTEREST RATES opened ¼ point firmer on a nervous London money market, but eased back slightly as dealers regarded another rise in UK bank base rates as unlikely in the present political and economic climate.

However, as sterling fell below DM2.95 in late European trading, there was further upward pressure on rates with three-month sterling interbank finishing at 15⅛-15 per cent, against 15-14⅞ per cent.

UK clearing bank base lending rate 15 per cent from October 5

The Bank of England forecast a money market credit shortage of £300m. The authorities did not operate in the market before lunch, but in the afternoon bought £214m bills, by way of £20m Treasury bills in band 1 at 14⅞ per cent; £20m Treasury bills in band 2 at 14¾ per cent; and £174m bank bills in band 2 at 14¾-14⅝ per cent.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £313m, with bank balances below target absorbing £65m. These outweighed Exchequer transactions adding £40m to liquidity and a fall in the note circulation of £55m.

In Frankfurt call money traded around the Bundesbank's 8 per cent Lombard emergency financing rate as the money market remained tight. Borrowing under the Lombard facility was a mere DM1.6bn on Monday, after touching a record DM38.0bn last Thursday, the day before a 1 per cent rise in the Lombard rate took effect.

Banks reserve holdings at the Bundesbank were extremely volatile last week, rising to DM83.3bn on Thursday, but falling to DM48.4bn on Friday as Lombard borrowings were repaid. Holdings during the first six days of October averaged DM67.1bn, against an expected average requirement for the whole month of about DM56bn.

The market was prepared to pay up to 8 per cent for overnight money yesterday, on fears that the Bundesbank may not fully meet demand at this week's securities repurchase tender. The rate for the 28-day tender was fixed at 7.3 per cent when the Bundesbank raised its official interest rates at last Thursday's council meeting. This indicates that the central bank aims to stabilise call money below the Lombard rate, but there is likely to have been heavy demand for funds. The market hopes that the central bank will at least fully replace the DM15.2bn leaving the banking system today, as an earlier agreement expires.

On Liffe short sterling continued to weaken. The December contract fell to a low of 85.18, and closed at 85.21 compared with 85.32 on Monday.

FT LONDON INTERBANK FIXING

(11.00 a.m. Oct.10) 3 months US dollars: bid 8⅝, offer 8¾; 6 months US Dollars: bid 8⅝, offer 8¾

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime) — Treasury Bills and Bonds

[illegible]

Oct.10	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	7.90-8.00	7.60-7.80	7.65-7.85	7.80-8.00	7.80-8.00	8.00
Paris	9⅛-9¼	9⅞-9⅞	9⅜-9⅞	9⅜-9⅞	9⅜-9⅞	9.50
Zurich	6⅝-6⅝	7⅛-7⅝	-	7½-7⅝	-	-
Amsterdam	8.31-8.43	8.02-8.12	-	8.00-8.10	-	-
Tokyo	-	-	-	-	-	-
Milan	12⅛-12⅝	12½-13	-	12⅞-13⅛	-	-
Brussels	8.50	9⅞-9⅞	-	9⅞-9⅞	-	-
Dublin	9⅝-10	10½-10⅝	10⅝-10⅞	10⅝-10⅞	10⅛-10⅞	-

LONDON MONEY RATES

Oct.10	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	15	15	15⅛	15⅛	15⅛	14⅞
Interbank Bid	14	14⅞	14⅞	15	15	14¾
Sterling CDs.	-	-	15	15	15	14⅞
Local Authority Deps.	14¾	14¾	14⅞	14⅞	14⅞	14⅝
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps.	14⅞	14⅞	14¾	14½	-	-
Company Deposits	-	-	15	15⅛	15⅛	14¾
Finance House Deposits	-	-	15	15⅛	15	14⅝
Treasury Bills (Buy)	-	-	14⅞	14½	-	-
Bank Bills (Buy)	-	-	14¾	14⅞	14	-
Fine Trade Bills (Buy)	-	-	15⅛	15⅛	14⅝	-
Dollar CDs	-	-	8.75	8.72	8.50	8.47
SDR Linked Dep Offer	-	-	8⅛	8⅞	8¼	8¼
SDR Linked Dep Bid	-	-	8⅞	8⅞	8½	8½
ECU Linked Dep Offer	-	-	10	10¼	10¼	10¼
ECU Linked Dep Bid	-	-	9⅞	10⅛	10⅛	10⅛

Treasury Bills (sell); one-month 14⅞ per cent; three months 14⅞ per cent; Bank Bills (sell); one-month 14⅞ per cent; three months 14⅞ per cent; Treasury Bills: Average tender rate of discount 14.3757 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day September 29, 1989. Agreed rates for period October 25 to November 25, 1989, Scheme I: 14.82 p.c., Schemes II & III: 15.27 p.c. Reference rate for period Sept 1, 1989 to Sept 29, 1989, Scheme IV&V: 14.018 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 14 from October 1, 1989: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 10½ per cent; one-three months 12 per cent; three-six months 12 per cent; six-nine months 12 per cent; nine-twelve months 12 per cent; Under £100,000 10½ per cent from May 25, 1989. Deposits withdrawn for cash 5 per cent.

BASE LENDING RATES

[illegible]

● Members of British Merchant Banking & Securities Houses Association.

I.G INDEX LTD, 9-11 GROSVENOR GARDENS, LONDON SW1W 0BD
Tel: 01-828 7233/5699 An AFBD member Reuters Code: IGIN, IGIO

	FTSE 100	WALL STREET
Oct.	2215/2225 -28	2785/2797 -7
Dec.	2228/2238 -41	2804/2816 -7

Prices taken at 5pm and change is from previous close at 9pm

JOTTER PAD

CROSSWORD

No.7,060 Set by VIXEN

ACROSS

1 Spoke tartly and caused a split (7)
5 There's drink left – keep up! (7)
9 Give satisfaction, being in accord (5)
10 One stands out for such building material (9)
11 Not willingly late (9)
12 Go by foot (5)
13 Beastly food offered by Greek simpleton (5)
15 Sounds like freebooters! (9)
18 Trips need to be well-organised for the chief executive (9)
19 A note quickly written (5)
21 Flying can be scary (5)
23 Important men in port maybe (9)
25 Get this wound up before eating (9)
26 Move the beer when the medico comes in! (5)
27 Scatter those about left and right for protection (7)
28 Implore a certain character to discuss terms (7)

DOWN

1 Resort to telephone to effect saving (7)
2 The American army's revolutionary command (5,4)
3 Newsmen cause harassment (5)
4 Despair at being made to appear contrary (9)
5 Considering a point in church (5)
6 Silly sage without the game needed by travellers abroad (9)
7 There's nothing, nothing whatever, like an egg (5)
8 A climbing frame for use in the garden (7)
14 The missile-launcher for which support's enthusiastic (5,4)
16 To deal with only one part is bad (9)
17 The people included in the list can be located (9)
18 Speaks well of produce in addition to writing (7)
20 Buff about bond being invalid (7)
22 Grabbing an animal that's to be put out (5)
23 The man's in very poor shape – terribly ill (5)
24 Mixing paint can be awkward (5)

Solution to Puzzle No.7,059

WORLD STOCK MARKETS

AUSTRIA | BELGIUM/LUXEMBOURG | DENMARK | FINLAND | FRANCE | FRANCE (continued) | GERMANY | GERMANY (continued) | ITALY | ITALY (continued) | NETHERLANDS | NORWAY | SPAIN | SWEDEN | SWITZERLAND | SOUTH AFRICA | JAPAN | AUSTRALIA | AUSTRALIA (continued) | HONG KONG | SINGAPORE

[illegible]

CANADA

TORONTO
2pm prices October 10

[illegible]

1–No voting rights or restricted voting rights.

INDICES

NEW YORK

DOW JONES	Oct 9	Oct 6	Oct 5	Oct 4	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2791.41	2785.52	2773.56	2771.09	2791.41 2 (9/10)	2144.64 (3/1)	2791.41 (9/10/89)	41.22 (2/7/32)
Home Bonds	92.62	92.59	92.51	92.89	94.15 (2/8)	87.35 (23/3)	—	—
Transport	1518.49	1504.62	1498.76	1467.11	1532.01 (5/9)	959.95 (3/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	219.13	218.69	218.37	217.68	221.64 (8/8)	181.84 (24/2)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2804.52 (2808.13) Low 2766.34 (2765.58)

STANDARD AND POOR'S

	Oct 9	Oct 6	Oct 5	Oct 4	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	359.80	358.76	356.47	356.94	359.80 (9/10)	275.31 (3/1)	359.80 (9/10/89)	4.40 (1/6/32)
Industrials	410.49	409.22	406.98	407.04	410.49 (9/10)	318.66 (3/11)	410.49 (9/10/89)	3.62 (21/6/32)
Financial	35.24	35.16	35.09	35.18	35.24 (9/10)	24.30 (3/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	199.34	198.94	198.05	197.98	199.34 (9/10)	154.98 (3/1)	199.34 (9/10/89)	4.46 (25/4/42)
Amex Mkt. Value	396.52	395.93	394.43	394.36	396.52 (9/10)	305.24 (3/1)	396.52 (9/10/89)	29.31 (9/12/72)
NASDAQ Composite	485.73	483.64	480.66	479.32	485.73 (9/10)	378.56 (3/1)	485.75 (9/10/89)	54.87 (31/10/72)

	Oct 8	Sep 29	Sep 22	year ago (approx.)
Dow Industrial Div. Yield	3.62	3.74	3.75	3.60

	Oct 4	Sep 27	Sep 20	year ago (approx.)
S & P Industrial div. yield	2.82	2.90	2.87	3.19
S & P Indl. P/E ratio	14.90	14.42	14.49	13.03

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day
USAir Group	2,650,400	52¼	+ 3⅝
Saxia Bus	1,310,100	⅛	− ⅛
Compaq Corp	1,240,700	104¾	+ 6¼
AMR corp	1,240,600	104⅞	+ ⅞
P Sec Cal	1,138,700	24⅞	—
Citicorp	1,105,300	33⅝	+ ⅞
AMU Pshl	1,085,700	13⅞	—
AT&T	1,000,200	43⅞	− 1
Amer Med	980,900	23⅞	+ ⅛
Chevron Corp	935,800	65	− 1

TRADING ACTIVITY

† Volume Millions	Oct 9	Oct 6	Oct 5
New York	86.810	172.520	177.890
Amex	8.006	15.534	15.616
NASDAQ	84.270	155.993	151.092
Issues Traded	1,895	1,950	1,959
Rises	697	767	736
Falls	644	656	732
Unchanged	554	527	491
New Highs	88	150	120
New Lows	19	24	23

CANADA

TORONTO	Oct 7	Oct 6	Oct 6	Oct 4	1989 HIGH	1989 LOW
Metals & Minerals	(c)	3748.9	3781.6	3774.8	3919.2 (1/9)	3207.5 (3/1)
Composite	(c)	4037.8	4023.1	4019.7	4037.8 (6/10)	3350.5 (6/1)
MONTREAL Portfolio	(c)	2063.26	2059.55	2053.13	2063.26 (6/10)	1677.48 (3/1)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Oct. 10	Oct. 9	Oct. 6	Oct. 5	1989 HIGH	1989 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1755.7	1773.2	1772.9	1772.5	1781.8 (29/8)	1412.9 (7/4)
All Mining (1/1/80)	854.0	862.1	863.2	865.1	875.1 (29/8)	652.6 (7/4)
AUSTRIA						
Credit Aktien (30/12/84)	514.39	510.10	505.66	502.24	514.39 (10/10)	219.5 (2/1)
BELGIUM						
Brussels SE (1/1/80)	6771.96	6710.06	6700.32	6698.41	6805.28 (26/9)	5519.30 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	339.94	338.59	335.11	333.98	356.65 (12/7)	275.49 (27/2)
FINLAND						
Unitas General (1975)	690.2	680.8	677.6	680.9	815.8 (18/4)	674.8 (27/9)
FRANCE						
CAC General (31/12/82)	559.9	560.2	555.0	550.6	560.2 (9/10)	417.9 (4/1)
Ind. Tendance (30/12/88)	128.1	127.8	127.1	125.9	128.1 (10/10)	97.5 (27/2)
GERMANY						
FAZ Aktien (31/12/58)	690.91	687.25	684.38	678.43	690.91 (10/10)	535.78 (27/2)
Commerzbank (1/12/53)	2056.8	2050.3	2044.4	2027.5	2056.8 (10/10)	1595.7 (27/2)
DAX (30/12/87)	1636.41	1639.56	1624.86	1616.21	1657.61 (8/9)	1271.70 (23/2)
HONG KONG						
Hang Seng Bank (31/7/64)	2844.04	(c)	2826.21	2803.17	3309.64 (15/5)	2093.61 (5/6)
IRELAND						
ISEQ Overall (4/1/88)	1772.92	1786.43	1778.36	1776.64	1848.93 (10/8)	1360.64 (10/1)
ITALY						
Banca Com. Ital. (1972)	691.39	693.08	690.22	694.53	734.84 (31/8)	577.49 (28/2)
JAPAN						
Nikkei (16/5/49)	(c)	35376.35	35209.35	35522.99	35689.98 (28/9)	30183.79 (5/1)
Tokyo SE (Topix) (4/1/68)	(c)	2673.56	2659.38	2676.99	2703.58 (2/10)	2366.91 (6/1)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	270.5	269.8	270.1	268.6	272.7 (21/9)	208.3 (3/1)
CBS All Shr (End 1983)	208.0	207.5	207.7	206.5	210.5 (8/9)	166.7 (1/3)
NORWAY						
Oslo SE (2/1/83)	679.11	682.08	686.62	685.00	695.50 (28/9)	467.17 (2/1)
PHILIPPINES						
Manila Comp (2/1/85)	1236.42	1242.89	1216.45	1159.21	1242.89 (9/10)	804.62 (4/2)
SINGAPORE						
Straits Times Ind. (30/12/66)	1420.91	1420.18	1413.15	1404.98	1420.91 (10/10)	1030.69 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	(c)	(c)	1557.0	1609.0	1710.0 (27/9)	1291.0 (15/2)
JSE Industrial (28/9/78)	(c)	(c)	2692.0	2711.0	2838.0 (25/8)	1961.0 (3/1)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	921.77	(c)	922.85	925.11	1007.80 (3/4)	846.30 (1/7)
SPAIN						
Madrid SE (30/12/85)	322.32	323.03	323.20	323.31	328.93 (13/9)	268.61 (1/3)
SWEDEN						
Jacobson & P. (31/12/56)	4360.3	4378.4	4372.0	4370.7	4660.3 (16/8)	3333.9 (3/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	813.4	813.3	811.0	807.4	829.1 (6/9)	613.1 (3/1)
TAIWAN**						
Weighted Price (30/6/66)	(c)	9966.58	9545.85	9317.76	10773.11 (25/9)	4873.01 (5/1)
THAILAND						
Bangkok SET (30/4/75)	693.62	690.78	688.56	688.00	724.93 (13/9)	386.75 (2/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	543.9	543.6	546.5	551.2 (3/8)	487.6 (13/6)

**Saturday Oct. 7: Taiwan Weighted Price: 9871.86. Korea Comp Ex. 922.67.
‡ Subject to official recalculation.

Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Monday October 9 1989

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Fuji Ph Film	20.1m	5,650	+270	Canon	11.3m	1,950	+100
Nippon Steel	19.2m	717	8	MHI	10.3m	1,030	-80
Amada	18.3m	2,200	+60	TDK	6.9m	6,620	+710
Sony	12.8m	8,360	+770	Japan Victor	5.2m	2,040	+200
Tomen	11.4m	873	-1	Toshiba	6.0m	1,170	+30

3pm prices October 10

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		— A—A—A —								
37⅝	21¾	AAR	.44	1.2	22	152	36⅝	36¼	36½	
9⅞	8⅝	ACM n	1.01	11.		73	9⅛	9⅛	9¼	
11⅝	10¾	ACMIn	1.26a	11.		278	11½	11⅜	11⅜	−⅛
10⅛	8	ACM M	n1.01	11.		234	9	8⅞	8⅞	
11½	10	ACM Sc	1.26	11.		641	11¼	11⅛	11⅛	
9⅞	8¼	ACMSp	1.07	11.		348	9⅛	8⅞	9	
16	11½	AL Lab	.12	.7	16	32	16⅝	16½	16⅝	−⅛
4⅛	3⅛	AMCA	.12e	3.3	24	314	3⅞	3⅝	3⅞	
8⅛	4½	AM Intl			12	659	5⅝	5½	5½	−⅛
28½	20⅝	AM In pf	2	8.7		48	37⅞	23⅛	32⅞	
107¼	46½	AMR			71	14340	104⅛	101¼	101⅝	−6⅛
27	25	AMR pf	2.67	10.		4	25	25⅞	25⅞	
7⅛	3⅝	ARX				91	4⅛	4	4	
40⅞	27⅛	ASA	3a	6.8		498	44½	44⅛	44⅛	−⅜
30⅞	19¼	AVX	.24	.8	18	2418	29⅝	29¼	29½	+⅛
37⅛	44⅛	AbtLab	1.40	2.1	10	1929	u68½	37⅛	38⅛	+⅜
16¼	13¼	Abitibi g	1			x49	14⅛	14⅛	14⅛	+⅛
18	7½	AcmeC	.40	3.8		131	11⅛	10⅛	10⅝	−¼
9⅛	5⅞	AcmeE	.32	3.6	11	71	9	9	9	
38½	20¼	Acuson			27	230	38⅛	68	25⅛	−⅛
17	14⅛	AdaEx	1.82e	11.		25	16⅛	12⅛	16¼	−⅛
12⅝	6½	Adobe				37	10⅝	13⅛	12¼	+¼
21⅛	18⅞	Adob pf	2.40	11.		5	21⅛	21⅛	21⅛	
10½	7⅛	AMD				6022	9	8⅝	8⅞	+⅛
32	28¼	AMD pf	3	9.7		74	31	20⅞	21	+⅛
10⅛	6⅞	Advest	.12	1.4	15	189	6⅛	2⅞	6⅞	−¼
89¼	40	AetnLf	2.76	4.6	9	906	60⅝	69⅞	60⅞	−⅛
14	12⅛	AflPb				530	16¼	16⅛	13⅝	+¼
23	15⅛	Ahmans	.88	3.7	12	1786	24¼	24	24	−⅛
4¼	2¼	Aileen				46	5	3	3	−⅛
48⅞	37⅞	AirPrd	1.22	2.6	12	972	47⅛	40⅞	47⅛	+⅛
29⅝	17⅝	AirbFrt	.60	1.5	25	1136	u39⅝	38⅛	39	+⅛
25⅛	14⅞	Airgas			14	17	23½	23½	23½	
20⅞	18⅛	Airlease	2.40	12.	8	16	20¼	20⅛	20¼	+⅛
34¼	21½	AlaP	pf2.13e	9.4		250	25⅛	22⅞	22⅞	

[illegible]

Reliable Computers
Renowned Monitors

Computers, OA & Telecommunications

SAMSUNG
Electronics

Continued on Page 45

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
28	16⅞	Wynns	.88	2.4	12	335	25¼	23½	23⅞	-
19⅞	4½	Wyse				1378	9⅛	8	8	- ⅛
		— X-Y-Z —								
69	53¾	Xerox	3	4.6	10	1263	65¾	65	65	- ⅛
48⅛	44½	Xerox pf4.13		8.8		19	48½	48½	48½	+ ⅛
44⅛	27	XTRA	.72	2.8	8	60	27¾	27½	27¾	- ⅛
36	23⅛	XTRA pf1.94		8.1		1	23⅞	23⅞	22⅞	- ⅝
4⅛	8	Zapata				643	2⅞	5⅞	2⅞	
10½	8½	Zemex	.40	4.1		9	9⅞	9⅞	9⅞	
22⅞	14	ZenithE				1140	16⅝	15⅞	16⅞	- ⅛
10⅞	9⅛	Zeninc	1.26	16.		205	9⅛	d 8	8	- ⅛
5⅞	⅛	viZeolLb				2806	½	⅜	⅜	- ⅛
21½	15	ZenNtl	.84	4.4	8	34	19¼	19⅛	19¼	
18½	12⅛	Zero s	.40	2.3	16	364	17¼	17	17¼	+ ⅛
44¼	25⅛	Zurn	.88	1.8	25	188	41⅝	41½	41¼	+ ⅛
12⅞	10	Zweig	1.12e	9.2		348	12⅛	12	12⅛	+ ⅛
10⅛	8⅛	ZweigTl	.96	10.		924	9½	8⅛	9⅛	- ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3pm prices October 10

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

OVER-THE-COUNTER

Nasdaq national market, 3pm prices October 10

Stock	Div.	Sales 100s	High	Low	Last	Chng
[illegible]						

AMERICA

Dow cracks after early resilience

Wall Street

THE EQUITY market put on a show of resilience yesterday, *as traders who had taken a Monday holiday returned*; but it weakened later, *writes Janet Bush in New York.*

A bout of modest profit-taking early in the session was broken by a rebound at 1 pm as fresh demand emerged. However, the recovery was short lived. At 2 pm, the Dow was quoted 7.98 points lower at 2,783.43 on moderate volume of 93m shares.

In spite of the fact that the surge of 92.70 points in the Dow last week was its largest weekly gain this year in terms of points, there has been little downward pressure on prices up to now.

Blue chips came under some pressure from profit-taking in the morning, and technology issues, which had improved their performance on Monday, were mixed, with IBM staying in the doldrums. The stock fell $¾ to $108¼.

The morning fluctuations on the stock market to some extent reflected developments in the bond market.

Bonds dipped after the US *Federal Reserve drained funds* from the money market through two-day matched sales.

This did not provide concrete evidence that policy was still on hold, as the Fed does have a substantial draining job to do. Nevertheless, if the Fed has been easing, it missed an opportunity yesterday to signal this clearly to the market.

In spite of the ambiguity, however, the bond market registered modest gains at midsession, helping equities to lift above their earlier lows.

After the Fed announced matched sales, the Fed Funds rate dipped to its lowest level of the session of 8⅝ per cent. There are still hopes in both bond and stock markets that the Fed will ease, if it has not already begun to do so.

The dollar rose sharply, partly because of the Fed's draining and partly because of remarks by Mr Alan Greenspan, Fed chairman, which were thought by currency dealers to signal reluctance to reduce interest rates (*an interpretation not shared by everyone*).

The main question facing the equity market is how much appetite remains now that the Dow is very close to the 2,800 level. Equity salespeople reported continued healthy demand for blue chip issues.

The top three car manufacturers were weak yesterday on a US press report that they might report third-quarter losses on their core US businesses. General Motors fell $½ to $47⅞, Ford lost $¼ to $52⅝ and Chrysler eased $¼ to $24⅞.

USAir fell $2 to $49⅞ after the company's announcement on Monday that it expected significantly lower third- and fourth-quarter results than a year ago.

On the over-the-counter market, Lin Broadcasting rose $3½ to $113⅝ after McCaw Cellular Communications increased the price of its tender offer by $15 a share to $125 a share. McCaw added $¼ to $42¼.

Also on the OTC market, Telos jumped $6¼ to $14½ on news that Contel's Federal Systems subsidiary had signed a letter of intent to acquire the company for about $16.85 a share.

Norton Co rose $¾ to $60¼. It is considering selling all or part of its Eastman Christensen oilfield services subsidiary.

Canada

QUIET midday trading in Toronto followed last week's gains, as investors held back and waited to see whether US interest rates would be reduced.

The composite index was down 8.2 at 4,029.6 with 12.4m shares changing hands.

Declining issues led advancing ones by 255 to 188.

In the consumer products sector, Seagram's rose C$3½ to C$101⅞.

Nova was active, gaining C$¼ to C$9.

Tokyo investors go house-hunting

Michiyo Nakamoto on the forces behind the market's latest theme

JAPAN'S sky-high land prices have not prevented something of a housing boom in the past year or so, as *increasing wealth and an urge* for the good life have encouraged those lucky enough to own homes already to look for something better.

Many Japanese urban dwellers have all but given up hopes of ever owning a home themselves. But people who do have a house or apartment have been flooding builders with orders for everything from a high-tech bathroom to a complete demolition and construction of a Beverly Hills-type mansion.

Characteristically, stockbrokers in Tokyo and Osaka have been quick to seize on the new theme, and housing shares have enjoyed a solid run in recent weeks for the first time in more than two years. Since the early summer, stocks of construction companies and of makers of housing materials have seen a surge of interest that has driven some of them well above their previous highs, most of which were set in 1987.

The time was ripe for a return of interest. The Government has been making loud noises about its intention to raise the quality of housing, spurred on by US charges that *Japan has spent* too little on improving living standards and that this is one reason why its trade surplus has not disappeared.

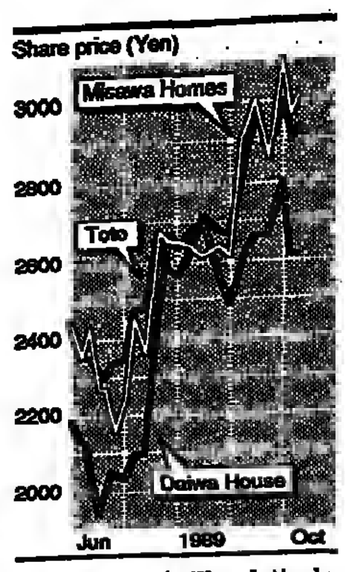
Last summer, the Ministry of Construction raised the hopes of apartment-hopping Tokyoites and housing companies alike when it revealed ambitious plans to supply the greater Tokyo area with between 2.6m and 3.7m new homes by the year 2000.

Housing company profits were already climbing strongly, due to a sharp increase in demand for expensive, high-quality homes. The shortage of such quality homes and the growing demand for them is reflected in the pace of the recent sale of nine homes to be built in a newly developed residential area. The houses were all sold by the day after they were offered, *in spite* of prices ranging from Y600m ($4.2m) to Y1bn.

Unlike previous good times for housing, the present one is supported not by a rush of new housing starts but by an increase in the amount of money homeowners have been willing to spend on rebuilding their homes. The number of new housing starts is expected to fall by 8 per cent this year, according to a report by Daiwa Securities.

Low interest rates, the growing value of personal assets and rising personal incomes have meant that more people can afford to build higher quality homes on land they already own. The amount spent on new homes rose by 6 per cent last year, Daiwa reports.

Second-time homebuilders, who are rarely satisfied with the basic facilities, are ready to spend money on costly kitchens complete with ovens and dishwashers (still relatively unusual in Japan), modern bathrooms with automatic taps and water temperature adjustment, and paperless toilets with heated toilet seats that appeal to the Japanese taste for the new and trendy.



A large number of home-*owners* live in houses that are about 20 years old and ready for renovation. Their children, aware that they have little hope of owning a home themselves, are urging their parents to rebuild single-family units into two family homes.

A report in the *Nihon Keizai Shimbun*, the leading economic daily, says that sales of houses costing Y80,000 per *tsubo* (3.3 square metres), or twice the average, have risen more than 10 per cent this year. Misawa Homes, a leading housebuilder, has created an international housing division to import US-designed homes, reflecting the growth in demand for larger, non-traditional homes.

The trend towards higher quality homes has helped housing companies improve their earnings, because it is more profitable for them to build a modest number of expensive units than a larger number of cheap ones. Daiwa has raised its fiscal 1989 earnings estimates upwards for five leading housing companies from a 15.5 per cent increase in pre-tax profits to 21.6 per cent.

Mr Hirokazu Nihei, a housing analyst at Daiwa Securities, emphasises that the popularity of housing issues also stems in large part from the fact that they have lagged the market.

Riding on this wave of renewed interest, Misawa Homes, helped by its strong resorts business, surged 40 per cent from Y2,180 on June 29 to Y3,030 on Monday. Daiwa House rose 35 per cent from Y1,940 on June 19 to Y2,610 on Monday and Sumitomo Forestry, which has diversified into building high-quality wooden houses, gained 36 per cent from Y1,790 on June 15 to Y2,440 at the beginning of the week.

Toto, *a leading maker of* ceramic sanitary ware, such as basins and toilet bowls, climbed 28 per cent from Y2,300 on June 22 to Y2,940 on Monday.

EUROPE

Takeovers are the talk of the day

TAKEOVER speculation dominated trading yesterday, and UK investors appeared to be abandoning the sorry home market for a slice of the action, *writes Our Markets Staff.*

FRANKFURT tried to make it seven rises in a row, as the FAZ index rose 3.66 to 690.91 at mid-session; but it failed narrowly, the DAX closed 3.14 lower at 1,636.41, and further weakness in the aftermarket suggested a serious change in sentiment.

Earlier, the talk was of large buy orders from British investors, keen on *Siemens and* moved by the weakness of the pound and the appreciation of the D-Mark; in addition there was a flurry of takeover rumours, involving Mannesmann, Deutsche Bank, Commerzbank, Veba, and Feldmühle Nobel. Volume rose from DM5.7bn to DM6.2bn.

The Siemens theory foundered on a share price down DM5.90 to DM606.10 – and negative comment on telecommunications prospects which left all the big electricals lower.

Takeover rumours, unconfirmed, included Deutsche Bank in pursuit of the Paris-based Banque Indosuez, to penetrate the French investment banking market; and the Flick *brothers, once again, trying to* fight the Veba takeover of Feldmühle.

But the one which was confirmed, in Mannesmann's now-admitted interest in a Krauss Maffei stakeholding, actually masked something far more important for this market: after hours, Mannesmann was to announce a DM578m rights issue which makes a total of DM8.5bn of cash calls waiting to be taken out of the market between now and the end of this year.

One observer pointed out that many short time operators are looking at the expiry of call options next Monday and could decide to take their profits if Wall Street continued yesterday's early slide.

PARIS was wrapped up in rumours, chiefly affecting the *banking sector, and prices rose* as foreign buyers, especially from the UK, joined the fray. Volume was estimated to be over FFr3bn and the OMF 50 index gained 4.49 to 539.36.

Paribas was the centre of attention, surging FFr47, or 8.8 per cent, to FFr580 on talk that Navigation Mixte, the diversified holding company, was stake-building. This was supposed to be either a defensive move, following Paribas's build-up of a 7 per cent share in Mixte, or a step towards a takeover.

"Navigation Mixte reportedly has FFr11bn in cash but that doesn't mean it can afford a full bid for Paribas," said one analyst. Mixte rose FFr25 to *FFr1,495 in heavy trading, and* was in turn said to be a target of stake-building.

There was also speculation about a joint move on Banque Indosuez, whose participation certificates rose FFr20 to FFr1,450, by Banque Nationale de Paris and Deutsche Bank.

"All this shows that in the short term we're in a very speculative period," said one observer. "However, I'm not sure that the market's going to consolidate because most investors are optimistic for the mid to and long term and they see the CAC General index going above 600."

FRANCE'S CAC General index, which is based on opening prices and reflects the previous day's trading, will be phased out at the end of this year, the Société des Bourses Françaises announced.

The SBF said that, from January 2, the only stock index it would calculate would be the CAC 40 index, which is updated every 30 seconds during the session. The index has been used as the underlying measure for options and futures since June 1988.

The sorry state of the UK equity market and the pound was cited as another reason to support the French bulls. And equities are expected to benefit from the change in rules on *Sicav funds, which from October 1* have no longer been obliged to invest a minimum of 30 per cent in bonds.

Sanofi, the pharmaceuticals company, rose FFr48 to FFr1,070 after saying it was interested in a 36 per cent Government stake in rival Roussel Uclaf, which is up for sale.

MILAN took umbrage at the news that the Agnelli group had ceded 23 per cent of the equity in its financial holding company, Ifi, to the Milan merchant bank Mediobanca. Analysts said that the deal ascribed a value of only L21,000 to the Ifi shares compared with Monday's close of L26,190. The Comit index closed 1.69 lower at 691.39.

Ifi fell to L25,300. Among other Agnelli companies, Fiat shed L129 at L11,651 while the investment company, Ifil, eased L50 to L6,950.

Mr Umberto Agnelli, Ifi vice president and general manager, indicated later that the Mediobanca deal may be read as a short-term financing agreement, and not a long-term shareholding. Ifi recovered to L25,450 after hours.

Financial sources said the shareholding transaction was probably designed to help the Agnelli group pay for Ifil's July acquisition of Galbani, Italy's largest cheese producer.

ZURICH closed slightly weaker but off its early lows in moderate trading, as the Crédit *Suisse index fell* 3.5 to 555.3. Participation certificates in Nestlé, Ciba-Geigy and Brown Boveri met a flurry of interest after the small chemicals company, Gurit-Heberlein, said it planned to convert all its non-voting pc's into bearer shares.

MADRID continued its steady decline in weaker volume, with the general index falling 0.71 to 322.32.

Mapfre, the insurance group, rose 120 points to 10,480 per cent of par following its plans *for a one-for-three rights issue* to raise Pta14bn.

A large block was traded in sugar group Industrias Agricolas, which rose 25 to 1,685. The buyer was rumoured to be Banco Santander. Azucarera, another sugar group, rose 190 to 7,730 on big volume. Banesto bank is thought to have been buying and there is speculation some form of defensive merger of the two could be planned.

AMSTERDAM was unchanged after being pulled up by London's initially better tone and then down again by the later heavy setback in the UK and a weak start on Wall Street.

Ahold, the retailer, rose to Fl 137 after a court ruled that it *would not have to reopen* cooperation talks with Asko of West Germany, but it closed unchanged at Fl 135.90.

BRUSSELS rose in heavy trading on the first day of the new forward market account. Interest rate fears evaporated and the cash market closed 61.90 higher at 6,771.96.

STOCKHOLM was dominated by rumour: that Volvo would link with Renault, lifting Volvo's free B-shares SKr12 to SKr496; that Ford would buy into Saab-Scania; and that Ericsson, up SKr11 to SKr829, would set up business links with Apple of the US.

Johannesburg was closed.

ASIA PACIFIC

Hong Kong attracts institutional buying

WITH Tokyo (and Taiwan) closed for a holiday yesterday, market leadership in the Pacific Basin was assumed by a resurgent Hong Kong, *writes Our Markets Staff.*

HONG KONG saw strong institutional buying, which overcame a sharp morning sell-off, and the Hang Seng index rose 17.83 to 2,844.04 following Friday's 23-point advance. The colony had taken its holiday on Monday. Turnover climbed to HK$1.5bn, the heaviest in two weeks and well above Friday's HK$1.37bn.

In the first 15 minutes, the market lost more than 38 points on worries arising from renewed verbal attacks by Peking. However, institutions were joined by overseas buyers, particularly UK investors seeking refuge in dollar-related equities from the weak pound.

Today, the market is expecting the announcement of an infrastructure package, costing *about HK$125bn ($16bn)*, which will include an international airport, extensive new port facilities, and road and rail links with bridges, tunnels and land reclamation.

Yesterday's outstanding performer was Jardine Matheson, up 70 cents at HK$24.40 on speculation that it could be a takeover target. Among other trading houses, Hutchison Whampoa put on 20 cents to HK$9.55 and Swire Pacific 'A' rose 40 cents to HK$17.30.

AUSTRALIA fell in moderate trade, but there was a sharp fall in News Corp after bad news at the annual meeting, and a further slump in *Bond Corp shares. The All Ordinaries* index closed 17.5 lower at 1,755.7 in higher volume.

Market attention focused on News Corp's 55-cent fall to A$15.90 after Mr Rupert Murdoch, chief executive, said that profits could slip this year. High interest rates in Australia and the UK, a strike by Australian airline pilots and the "very large costs" of establishing the Sky Television operation in the UK were all contributing to the problem.

Bond Corp fell 6 cents to a 10-year low of 23 cents in early trading before recovering a little, to close at 25 cents. There were continued doubts over *the proposed sale of Bond's* brewing assets to its associated company, Bell Resources, which fell 7 cents to 93 cents.

SINGAPORE briefly hit a post-crash high at midsession, but the Straits Times Industrial index slipped back to its opening levels as profit-taking set in; it closed 0.73 higher at 1,420.91.

IFC EMERGING MARKETS INDICES

Market	No. of stocks	PRICE: August 1989	% Change on July (Dollar terms)	% Change on Dec 31 '88 (Dollar terms)	August 1989	% Change on July (Local currency terms)	% Change on Dec 31 '88 (Local currency terms)	TOTAL RETURN: August 1989	% Change on July (Dollar terms)	% Change on Dec 31 '88 (Dollar terms)
Latin America	(157)	200.22	0.2	31.0	–	–	–	278.78	0.6	39.1
Argentina	(24)	282.56	41.6	59.1	963,070.84	43.1	5,900.9	347.42	45.6	76.3
Brazil	(58)	109.20	−8.8	16.3	92,915.67	17.9	350.1	159.70	−8.5	26.2
Chile	(25)	498.39	−3.7	9.0	1,016.41	−7.3	15.4	812.13	−3.4	16.9
Mexico	(53)	550.69	9.4	58.5	7,225.51	9.6	73.3	731.48	9.4	63.1
Asia	(204)	442.52	2.1	52.8	–	–	–	553.47	2.3	56.0
Korea	(61)	515.60	0.4	7.0	418.17	10.2	4.7	871.44	8.5	10.5
Malaysia	(62)	132.43	−1.8	21.6	147.05	−0.5	20.9	157.05	−1.5	24.1
Taiwan, China	(62)	1,312.03	−0.2	97.1	847.47	−0.1	78.3	1,443.73	−0.1	99.1
Thailand	(19)	322.11	7.3	47.6	306.83	8.1	51.5	583.46	8.3	61.7

Source: International Finance Corporation. Base date; Dec 31,1984

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood *Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries*

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of stocks per grouping	MONDAY OCTOBER 9 1989: US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's change % local currency	Gross Div. Yield	FRIDAY OCTOBER 6 1989: US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX: 1989 High	1989 Low	Year ago (approx)
Australia (85)	160.41	+0.0	150.61	136.08	+0.0	4.85	160.33	148.33	136.12	160.41	128.28	140.77
Austria (19)	168.63	+1.0	158.34	165.33	+1.1	1.48	167.03	154.53	163.51	168.63	92.84	89.16
Belgium (63)	142.66	+0.5	133.95	139.84	+0.2	3.96	141.99	131.37	139.54	144.47	125.58	123.84
Canada (122)	154.16	+0.1	144.75	131.22	+0.0	3.13	154.03	142.51	131.22	154.18	124.67	123.63
Denmark (36)	202.12	+1.0	189.78	202.12	+0.7	1.57	200.13	165.16	200.68	219.89	165.35	134.90
Finland (26)	125.39	−0.2	117.73	112.97	+0.0	2.45	125.63	116.23	113.00	159.18	123.12	113.06
France (126)	139.55	+0.3	131.03	140.04	+0.1	2.69	139.10	128.69	139.97	139.67	112.57	100.71
West Germany (97)	103.84	+0.8	97.50	101.74	+0.4	2.02	103.06	95.35	101.34	103.84	79.56	61.73
Hong Kong (48)	119.49	+0.0	112.19	119.70	+0.0	4.72	119.47	110.53	119.70	140.38	86.41	105.34
Ireland (17)	162.43	+1.1	152.52	162.15	+0.9	2.73	160.70	148.67	160.65	166.69	125.00	137.84
Italy (97)	92.28	+0.8	86.65	95.25	+0.6	2.40	91.57	84.72	94.65	98.73	74.97	76.34
Japan (455)	184.42	+0.6	173.18	166.29	+0.5	0.48	183.30	169.59	165.46	200.11	164.22	159.53
Malaysia (36)	208.50	+1.1	195.77	216.37	+1.1	2.45	206.20	190.77	213.98	208.50	143.35	134.86
Mexico (13)	319.19	+0.9	299.70	908.06	+1.1	0.57	316.47	292.79	898.58	321.99	153.32	152.97
Netherland (43)	131.72	+0.2	123.68	128.08	−0.1	4.14	131.50	121.67	128.20	131.72	110.63	105.05
New Zealand (19)	82.52	−1.1	77.48	74.55	−0.9	4.70	83.40	77.18	75.26	88.18	62.64	72.02
Norway (24)	182.65	−1.1	171.50	173.23	−1.0	1.60	194.74	170.92	174.96	198.39	139.82	115.50
Singapore (26)	167.54	+0.6	157.31	151.87	+0.5	1.94	166.50	154.04	151.04	170.62	124.57	118.12
South Africa (60)	157.13	−0.4	147.53	132.10	+0.0	4.34	157.73	145.93	132.10	160.24	115.35	107.94
Spain (43)	165.52	+0.3	155.41	149.85	−0.1	3.48	165.10	152.74	149.96	169.75	143.14	141.75
Sweden (35)	181.80	−0.1	170.69	174.33	−0.2	1.97	182.04	168.42	174.70	188.94	138.45	125.58
Switzerland (64)	92.18	+0.2	86.53	94.01	+0.3	2.01	91.93	85.05	93.75	94.16	67.81	79.40
United Kingdom (306)	145.58	−2.9	136.69	136.69	−1.4	4.43	149.88	138.66	138.66	158.41	133.28	131.74
USA (547)	146.29	+0.3	137.36	146.29	+0.3	3.15	145.90	134.99	145.90	146.29	112.13	113.64
Europe (996)	129.46	−0.9	121.56	124.68	−0.5	3.36	130.65	120.87	125.25	132.95	112.63	108.10
Nordic (121)	168.50	+0.2	158.21	157.61	+0.1	1.80	168.22	155.63	157.52	178.38	137.95	116.98
Pacific Basin (669)	181.02	+0.8	169.97	163.28	+0.5	0.73	179.99	166.52	162.52	194.72	160.44	156.54
Euro – Pacific (1665)	160.51	+0.1	150.71	147.76	+0.2	1.59	160.38	148.38	147.52	166.98	141.56	137.20
North America (669)	146.66	+0.3	137.70	145.34	+0.3	3.15	146.28	135.34	144.98	146.66	112.79	114.17
Europe Ex. UK (690)	118.51	+0.5	111.28	117.11	+0.2	2.64	117.96	109.13	116.84	118.51	96.30	93.31
Pacific Ex. Japan (214)	140.05	+0.1	131.50	125.37	+0.0	4.51	139.98	129.51	125.36	140.05	111.93	120.50
World Ex. US (1860)	160.36	+0.1	150.57	147.31	+0.2	1.67	160.23	148.24	147.08	166.35	141.49	136.46
World Ex. UK (2101)	155.10	+0.4	145.63	147.90	+0.4	1.95	154.44	142.88	147.39	156.04	136.96	127.15
World Ex. So. Af. (2347)	154.21	+0.1	144.80	146.95	+0.2	2.14	153.99	142.47	146.66	155.92	136.67	127.66
World Ex. Japan (1952)	140.19	−0.2	131.63	137.19	+0.0	3.29	140.43	129.93	137.21	140.43	114.51	112.25
The World Index (2407)	154.23	+0.1	144.81	146.84	+0.2	2.16	154.01	142.49	146.56	155.89	136.68	127.54

Latest prices were unavailable for this edition. Markets closed October 9: Canada, Hong Kong and South Africa.